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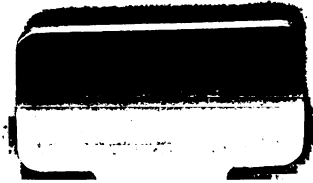
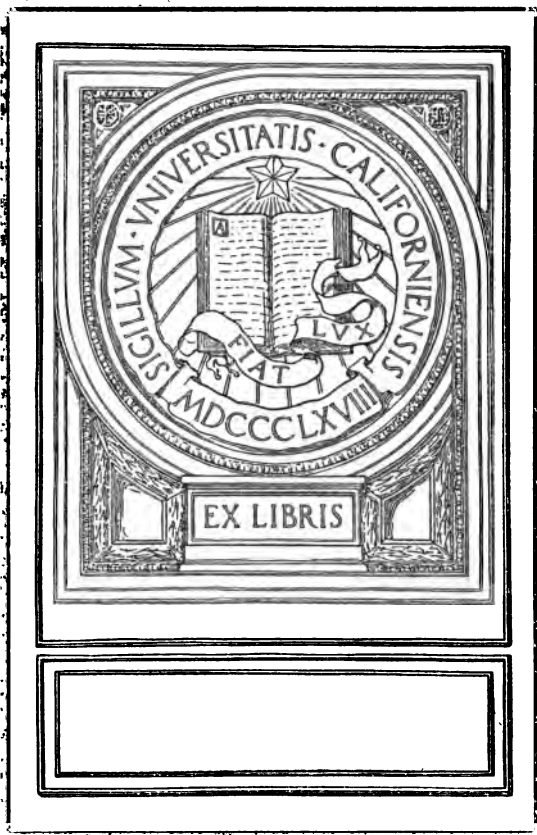
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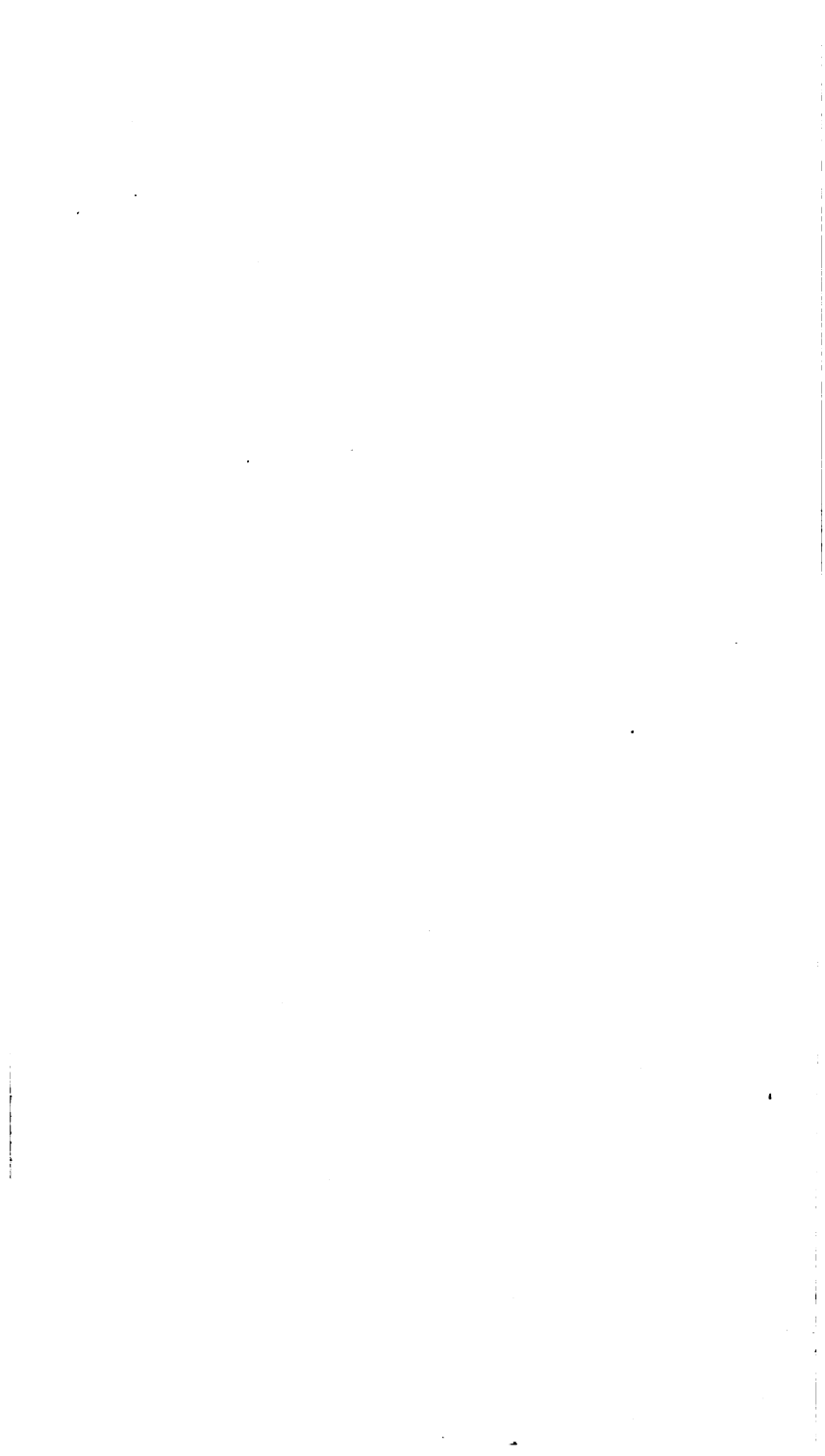
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A SKETCH
OF THE
HISTORY OF THE CURRENCY:
COMPRISING
A BRIEF REVIEW OF THE OPINIONS
OF THE
MOST EMINENT WRITERS ON THE SUBJECT.

BY JAMES MACLAREN.



London:

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1858.

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PREFACE.

THE following pages are placed before the public in the hope that the brief review which they contain of the opinions of many eminent men, and of the events which tend to confirm or disprove those opinions, may, though very imperfect, be found useful at the present time, when the difficulties which lie in the way of a satisfactory regulation of the paper circulation, and, still more, the questions connected with the depreciation which may, probably, take place in the national standard of value, in consequence of the recent discoveries of gold in California and Australia, render a more general diffusion of a knowledge of the nature of the currency and its influence on the social economy an object of the greatest importance.

PASHLEY,

December, 1857.

ERRATA.

In page 39, line 6, *for* "created by credit," *read* "exerted by credit."

In page 47, line 10, *for* "lower prices" *read* "raise prices."

In page 59, line 7, *for* "this phenomena," *read* "these phenomena."

In page 60, line 26, *for* "raised" *read* "lowered."

In page 61, line 2, *for* "falls again" *read* "rises again."

In page 237, line 16, *for* "abundance of money" *read* "scarcity of money."

In page 297, line 22, *for* "results," *read* "result."

In page 304, line 10, *for* "in the hopes," *read* "in the hope."

The reader is requested to correct the errors in pages 47, 60, 61, and 237, before commencing the perusal of the book, for though patent mistakes, they might mislead a person not familiar with the subject. The author must plead the haste with which it was necessary to prepare this work, that it might be placed before the Public while engaged with the subject, as an apology for these, and, he fears, many other imperfections.

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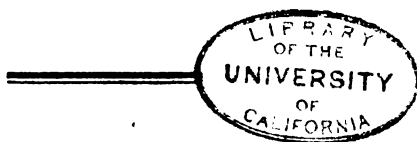
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A SKETCH

OF THE

HISTORY OF THE CURRENCY.



CHAPTER I.

PERIOD OF A METALLIC CURRENCY.

Early Debasements of the Coin.—Questions to be considered on such occasions.—**Rise in Prices in the Reign of Elizabeth,** in consequence of the Discovery of the fertile Silver Mines of America.—Its influence on the Progress of the Country.—**Alternate Disappearance of Gold and Silver Coin in the Reign of James the First,** and apparent Scarcity of Money.—**Gradual Debasement of the Coin from Neglect to keep up its Weight.**—**Method of Estimating the Deviation of the Coinage from the Standard Value.**—**Explanation of the terms Mint and Market Price of the**

Precious Metals, and Rise and Fall of the Exchanges.—Evidence afforded by the Depreciation of the Coin in the Reign of William the Third, of the Dependence of Prices on the Extent of the Currency.—Effect of this Depreciation on the Industry of the Country.

THE great object of all discussions upon the currency has been to ascertain its influence upon the price of property and upon the industry of the country.

When the method of reckoning by pounds, shillings, and pence was introduced into this country by William the Conqueror, a certain amount of pure silver was allotted to each coin; the pound sterling and the shilling were then, indeed, but imaginary money, the largest silver coin in existence being the penny, which contained the two hundred and fortieth part of a pound of silver; but a shilling if then coined would have contained the twentieth part of a pound, and the pound sterling would have weighed a pound.

Our kings soon began to debase the currency, by diminishing the quantity of pure metal contained in the coins without altering their denomination; their motive,* according to Lord

* Letter to the King on the Coins of the Realm, p. 107.

Liverpool, being not merely the gain which they themselves obtained by making more money out of the same amount of bullion, but also a desire to increase the wealth of their subjects, which they supposed to depend upon the quantity of money in the country, so ancient is the theory which attributes a power of increasing national prosperity to an extension of the currency. These debasements were practised to a great extent in the latter years of the reign of Henry the Eighth, and in the beginning of that of his son, who, however, afterwards prepared a scheme for the restoration of the coinage to its former standard, which, with some modification, was carried into effect by Elizabeth.

We here meet at once some of the most difficult questions connected with our subject. Prices, we find, always rose when the coinage was debased; their tendency to rise was, indeed, so well known, that the Government, when about to debase the money, usually attempted, though in vain, to fix prices by act of Parliament; and we may be sure that the currency was extended on these occasions, as the object of those who debased it was to make more money. Now, did prices rise because the people saw that there was less pure metal than before in the coins? and did

they rise in exact proportion to the diminution of the quantity of the pure metal, so that goods continued to exchange for the same quantity of pure metal as before ? If this view be taken, a difficulty occurs ; when people had become accustomed to estimate their property by reference to a certain number of pieces of the coin of the realm, and when they sold all their commodities for these coins, they could not increase the prices of their goods universally until the purchasers had more money, until the coin had been sufficiently increased to supply the quantity of it required in effectuating the exchanges at a higher price. Was it, then, the extension of the currency, and not the diminution of the quantity of pure metal in the coin, that caused the rise in prices ? and was this rise exactly proportioned to the extension of the medium of circulation ? Again, did prices fall when the coin was restored to its former standard without any contraction of the currency, or must a contraction of the currency necessarily follow such a restoration ? And lastly, as the machinery by which circulation is conducted was apparently increased or diminished on these occasions, did this circumstance, or the general rise or fall of prices, produce any effect on the industry of the country ? We shall

shortly meet with important evidence upon all these points ; but with respect to the very early debasements and restorations of our coin, the statistical details are so very uncertain that we can form no definite conclusion ; all we know is, that there are no historical facts from which we can at all infer that these depreciations of the currency had any beneficial, or its restoration any injurious, effect upon the industry of the nation ; on the contrary, the debasement of the coin was universally complained of as an evil unmitigated by partial prosperity ; and its restoration to its former standard by Elizabeth, though effected at a great expense, and after the coinage had remained for a considerable time in its degraded state, and many contracts must have been made with reference to it, was hailed by the nation with joy, and is recorded as being, after the reformation of our religion, the most useful act of that reign.

From the year 1570, notwithstanding the restoration of the coinage by Elizabeth, the prices of all articles continued to rise gradually until about the year 1640, after which period they maintained the same average level for a century at least. This rise in prices, estimated by Dr. Smith and Mr. Jacob at 400 per cent., but by Mr. Tooke

at 200 per cent. only, is universally ascribed to the large supplies of silver which were produced by the fertile mines of America. It is a remarkable fact, that, notwithstanding the smallness of the quantity of silver then existing in this country, which we should suppose would have rendered the effect of any addition to our stock immediately evident, prices did not on this occasion begin to rise, until more than twenty years after the discovery of the very rich mines of Potosi.*

We ought here to find some evidence as to whether prices depend upon the value of the metal in the coin, or the extent of the currency; did prices rise because the pure metal contained in the coins had become less valuable as a commodity, or did goods remain at their old prices until more coins had been made? There seems to be no direct evidence on this point, owing to the imperfection of the statistical details of the period; but as prices did not begin to rise in this country until long after the richest mines were discovered, there seems some ground to argue that they were not affected until an increase of the coinage had taken place.

* Wealth of Nations, book 1, c. xi.

Again, as there was nothing to cause a feeling of distrust on this occasion, or in any way to interrupt the ordinary course of business, for there was no debasement of the coin from the standard, nor any change in its weight or appearance, there could be no interference of any kind with the power of an increasing currency to promote the general prosperity, and we should expect to find that power, if it really exist, most conspicuously displayed. There certainly occurred, about this time, a considerable extension of our commerce, and this fact is often referred to by the admirers of an abundant currency, as a proof of the beneficial effects of an increase of the money of a country. We shall shortly meet with the opinions of several eminent economists upon this question; at present we must remind the reader that, before we attribute the advance of commerce, which took place at this time, to the fall in the value of money, we must allow for the beneficial influence exercised by the destruction of the feudal system, the progress of good government, and the increased security of property and person, which had occurred, and by the new market afforded by America; having made this allowance, we shall apparently have but a small part indeed of our

social advance to attribute to the depreciation of the value of money, yet, at that time, there were circumstances which would, perhaps, tend to make such a change in the currency far more effective in increasing the productive power of the country than it now could be; then by its action on the rents reserved on perpetual leases, it would tend to break up the very large estates of the great nobles, giving their tenants a greater interest in the land, a circumstance which, in those days, when there existed no class of tenant farmers possessing capital, would, it is generally allowed, have promoted the cultivation of the soil. It might have facilitated the creation of a middle class, and it would tend to make the Crown more dependent upon Parliament, and our Sovereign the head of a constitutional government, instead of the most powerful noble of the country.

There are some circumstances which seem to shew that, even at this time, the fall in the value of money was felt rather as an impediment to the progress which the country undoubtedly made. Mr. Jacob^a states that complaints of distress amongst all classes were never so frequent nor so loud as at this period, and he quotes

^a History of the Precious Metals, vol. ii. p. 89.

a work printed at this time in the form of dialogue between a landowner, a husbandman, a shopkeeper, a manufacturer, and a doctor of divinity, on the state of the country; all the speakers have complaints to make, the landowner laments that his land is on lease, that not above one-third of it is likely to fall into his hand during his life, and that in the meantime he is ruined by the high prices he is obliged to pay. The manufacturer and merchant complain of the high wages they are compelled to give their workmen, though they allow that those wages are too small to meet the increase in the price of provisions, or to provide a sufficient subsistence. The fact that in those days when books were not so plentiful as at present, a work should appear on such a subject, points to anything but a state of general prosperity, it is certainly a fair inference that the depreciation of money, instead of assisting the progress of the country, rather interfered with the beneficial influence of the new market, and produced a useless confusion of property, accompanied with a peculiar pressure on the lower classes. Of this last fact of the distressed state of the labouring classes at this period we have direct proof, many acts of Parliament were passed for their relief at different

periods of the reign of Elizabeth, and just before its close it was found necessary to establish our compulsory system of poor laws, a course of legislation clearly indicative of growing poverty.

The reader will probably wish to know in what manner this great and long-continued fall in the value of money was received by the statesmen of that period. It is said that Lord Burleigh and Sir Thomas Smith were aware that the great rise in the price of all articles, which occurred about the end of the reign of Elizabeth, was a consequence of the increasing supply of silver, and that in order to preserve the colleges of Oxford and Cambridge from the consequences of the fall in the value of money, they procured an act of Parliament to be passed, by which these bodies were obliged to reserve one-third of their rents in wheat or malt. It is difficult to see with what other object this act could have been passed; but it is singular that these statesmen should have confined their solicitude to these colleges; we should have supposed that the same proviso would have been inserted in the leases by deans and chapters and other ecclesiastical persons; and even if the crown lands were already leased at perpetual rents, so that this plan could not be adopted with respect to them, there seems no

reason why these statesmen should not have applied it to their own estates, and have been imitated by their neighbours. We have seen that the rise in prices was sufficiently rapid to be severely felt by the landowners of this period, whose land was on lease, though they might not be generally aware of the cause of it. It is to be observed that, on this occasion, the supply of both precious metals was greatly increased, and they both fell in value, though not indeed exactly in the same proportion; the statesmen of this period had not the power of preserving the measure of value by so simple an expedient as adopting one of the precious metals for that standard in place of the other.

Up to the reign of Edward the Third, the small quantity of gold coin which existed in this country, exchanged for the silver coin in accordance with the market value of the gold as bullion, and silver was the sole standard of value; but in that reign gold coins were made in considerable numbers, and were ordered to pass current for a certain number of silver pieces, the number at that time corresponding with the relative value of the two metals. We now had a double standard, debts could be paid in gold or silver, at the option of the debtor. When our kings debased

the silver coinage, they either reduced the quantity of metal in the gold coins, or declared that they should pass for a larger number of the debased silver coins, under these circumstances both species of coin continued jointly to circulate; but in the reign of James the First, great inconvenience was felt in consequence of the disappearance of the gold coin from circulation. This event is considered evidence of a change in the relative values of gold and silver. The quantity of silver which was brought from America having greatly exceeded that of the gold derived from the same source, silver bullion became cheaper than gold, *i. e.*, would purchase as bullion fewer commodities than the gold bullion to which it was before equivalent, and for which it would now exchange in the coinage, silver was, therefore, coined and exchanged for the gold coins, which were melted down and employed as bullion. To remedy this inconvenience, the king diminished the quantity of gold in his coins, and ordered that they should pass current for a greater number of pieces of the silver coin. As the extent of this rise in the denomination of the gold coin was too great, the case was reversed, and it now became profitable to exchange gold coins for silver coins, and to melt the latter. Thus, at

the time when the American mines were in full operation, there existed in this country a scarcity of the coins of each of the precious metals alternately, and it would seem, from repeated proclamations issued at this time,* in restraint of the use of both gold and silver in the arts, that one metal did not merely at once replace the other, but that during the process, a feeling of a scarcity of money of every kind was experienced. This is, certainly, an extraordinary circumstance ; we shall see that it may, perhaps, point to the cause of some part at least of the want of money which is generally experienced at present throughout Europe, where a great substitution of gold for silver is in progress.

This melting down of the silver coin ceased as silver gradually fell in value, when compared with gold ; and this fall still continuing, Charles the Second again reduced the quantity of metal in the gold coin. Guineas were now first coined, receiving that name from the country from which the gold had been procured ; they were intended to pass for 20s., but no proclamation was made prescribing the rate at which they should pass ; they became current, by consent of the people,

* Lord Liverpool, Letter to the King, p. 62.

for 21s. and 22s., without being a legal tender ; and, so far as they formed the bulk of the gold coinage, silver became again in law, as it was at this time in practice, the only standard of value.^a

By the middle of the reign of Charles the Second, when the alteration of the relative value of gold and silver caused by the unequal production of those metals in America attained its maximum, silver had fallen in value, as compared with gold, rather more than 32 per cent.^b

After the restoration of the coin to its former standard by Elizabeth, it was never intentionally debased, but it was allowed to circulate after it became worn ; and the consequence was, that a progressive depreciation of it took place, for the debasement of the coin naturally grew greater and greater, and whatever new coin was issued was either hoarded or clipped and reduced to the average condition. Affairs continued in this state until the reign of William the Third, when a reformation of the coinage became absolutely necessary. We shall now find more distinct evidence upon the questions which we have seen arise on a debasement of the coinage ; but, in

^a Lord Liverpool, Letter to the King, p. 29 to 69.

^b Lord Liverpool, Letter to the King, p. 57.

the first place, we must notice in what manner the extent of a depreciation of the currency from the value of a currency of full weight can be measured. This is effected by comparing the mint and market prices of bullion, and by examining the state of the foreign exchanges.

These expressions—mint and market price of bullion, rise and fall of the exchanges—constantly recur in discussions upon the currency, and are frequently felt as a difficulty when the attention is first turned to such inquiries.

The mint price per ounce of the precious metals is simply the number of pieces into which an ounce of them is divided by the mint; it is always the same until the standard of the coin is altered by law, and does not depend at all upon the value of the precious metals as compared with commodities. Thus the mint price of an ounce of silver was 5s. 2d. from the time of Elizabeth, because the ounce of silver was always divided into five shillings and twopence, whatever might be the variations in the value of silver as compared with commodities. The market price of an ounce of silver is, of course, the sum for which an ounce of it in the shape of bullion can be actually sold, reckoned in the money for the time being current. If the

current money consist of pieces of silver bullion of full weight, the mint and market prices of silver must obviously in general agree; but if the currency be depreciated, then the price of an ounce of silver bullion, like that of any other commodity, will rise, and this rise in price will clearly indicate the extent to which the purchasing power of the currency differs from that of the bullion which it represents. Some little difficulty occurs with respect to the mint price of gold. Our coinage was originally adapted to the employment of silver only—hence an ounce of silver can always be divided into a certain aliquot number of pieces of coin; but, as gold was introduced at a later period into a coinage adapted only to silver, an ounce of gold cannot be coined into an aliquot number of pieces—hence the mint price of gold, the precious metals being always priced by the ounce, must be reckoned in what are called the monies of account, that is, in pounds, shillings, and pence. This has led to much misapprehension, and persons, seeing the mint price of gold quoted £3 17s. 10½d., frequently suppose that it has some connexion with the value of gold as compared with commodities. At present gold is our standard, its value regulates that of the shillings

and pence, in which the mint price is expressed, and they may be taken as portions of the ounce of gold.

By the rate or course of exchange is ordinarily meant the terms on which merchants residing at a distance from each other settle their pecuniary transactions. A bill of exchange is an order by a creditor on his debtor to pay a certain sum out of the debt to a third party, to whom the creditor has money to pay. If, for instance, a merchant in Edinburgh has a payment to make in London, instead of sending gold, which would be a dangerous and expensive mode of remittance, he draws a bill upon some person residing in London who is indebted to him, and he sends the bill to the London merchant to whom he is himself indebted. If there be no person in London who is indebted to him, he inquires amongst his brother merchants in Edinburgh until he finds a person who has a debt due to him in London ; he pays this person the debt which should be paid in London, and receives from him, in return, a bill upon his debtor in London ; that is, he purchases a bill upon London, which, as in the former case, he sends instead of the money which he owes. The London merchants are doing the same thing in London with respect to payments which they

have to make in Edinburgh; and if it happen that the amount of debts due to Edinburgh in London is equal to the amount due to London from Edinburgh, no difficulty is found on either side in obtaining the necessary bills, and the exchange between the two places is said to be at par; but if more debts should be due from Edinburgh to London than from London to Edinburgh, the Edinburgh merchants will not all be able to obtain bills upon London. They will therefore be obliged to give a premium to some person who has connexions in London, to, as it were, create a fictitious debt from London to Edinburgh, by drawing upon some one with whom he has connexions, and who will pay his bill. In this case the exchange is said to be against Edinburgh and in favour of London. When the exchange is at par, one pound sterling in Edinburgh will purchase a bill for one pound sterling in London, or, in other words, will be equal to one pound sterling in London. When the exchange is against Edinburgh, one pound and sixpence in that city may be required to purchase a bill for one pound in London, and will be equivalent to one pound only in London; and nineteen shillings and sixpence in Edinburgh might be

equivalent to one pound in London were the exchange favourable to Edinburgh.

In the same way payments are made between different countries, as, for instance, between France and England; but here a new feature presents itself. The currency in which the two payments are made is no longer the same; we reckon by pounds, shillings, and pence, and France by francs and centimes. There must, however, be a proportion in which the coins of the two countries exchange with each other, irrespective of the balance of payments for the time being between the two countries. This proportion, which is well known, and which is called the par of the currency, or the intrinsic par of exchange, depends upon the quantity of pure metal contained in the coins of the respective countries, it is settled amongst the merchants, either by a general agreement as to the amount of pure metal contained in the respective coinages or by reference to the mint regulations of the different countries. Thus, our sovereign contains as much pure metal as twenty-five francs twenty-two centimes, which is the intrinsic par of exchange between England and France. When the course of exchange with France, as settled by the merchants, from the demand and supply of

bills, is such that a pound in London will pay 25 francs 22 centimes in France, the exchange between the two countries is said to be at par, as it was between London and Edinburgh when one pound in that city paid one pound in London ; when one pound sterling pays more than 25 francs 22 centimes, the exchange is said to be in favour of England, and the contrary when one pound pays less than 25 francs 22 centimes.

In calculating exchanges with some countries we consider our money fixed, and receive from them a variable sum, with others we give a variable sum and consider their money fixed. Thus, in our transactions with France, we treat our pound as the fixed quantity and receive for it a certain number of francs and centimes, varying according to the state of the exchange. In this case the more we receive, evidently the greater is the advantage, and the exchange is said in this case to rise when it is becoming more favourable to us, and, as we consider our pound the fixed quantity in our transactions with the most important commercial nations of the continent, the exchanges are said to rise when they are generally becoming favourable.

The balance of payments in the ordinary course of mercantile transactions is never long in favour

of any one country, for if our merchants are obliged to give £105 here to buy a bill for £100 on a foreign state, they evidently lose 5 per cent. on the transaction, which must diminish their profits, at the same time the foreigner would gain 5 per cent., which would increase his profits on any importation of our goods into his country. An unfavourable exchange, therefore, acts as a tax on the import of foreign goods, and as a bounty on the export of those of home produce. There are soon more foreign bills to be bought in England, and their price falls ; there are fewer English bills to be bought abroad, and their price rises, and, after a short time, the exchange comes again to par ; nor can the rate of exchange much exceed the expense of sending bullion abroad, for, rather than pay a higher price for a bill, it would seem that bullion would be sent in discharge of the debt.

Besides these mercantile exchanges, however, a rate of exchange may arise from variations in the currency. It is evident that if the quantity of pure metal in the coinage of either country be diminished, more of the coins of that country must be given to provide an amount of pure metal equivalent to that in the coins of the other country. If, when such a change occurred in

either currency, merchants were in the habit of re-arranging the intrinsic par of exchange, no effects would be produced by such change, nor would any rate of exchange arise between the two countries. But this is not the habit of merchants, the intrinsic par is left as it was, and the difference between the two currencies is estimated in an increase in the number of the coins of the depreciated currency required as an equivalent for the former amount of the unchanged currency, and, though the balance of payments between the two countries be at par, a rate of exchange is established between them similar in appearance, though not in reality, to what might have occurred from mercantile causes, while both currencies had remained unchanged. This exchange is generally called the nominal exchange ; there is evidently no limit to its amount, except the extent of the change in one of the currencies ; it offers no premium on exports, nor does it operate as a tax upon imports ; it is merely a mode adopted by merchants of keeping their accounts, instead of making those alterations in the intrinsic par which would cause the nominal exchange to disappear. This exchange is, in practice, mixed up with the mercantile exchange, and the two together form the computed ex-

change, by which merchants regulate their transactions, and which is that quoted in the papers. It is evident that if the currency of any country become depreciated, the computed exchange will have a great tendency to be constantly against that country; and the extent to which the exchange is unfavourable will, making due allowance for the state of the mercantile exchanges at the time, be the measure of the extent of the depreciation. The reader must note, however, that if any circumstances give the depreciated currency a purchasing power at home beyond what is due to the quantity of pure metal contained in it, a smaller amount of that depreciated currency will have to be given to provide a portion of pure metal equivalent to that contained in the given number of coins of the foreign currency, and the nominal exchange will be diminished accordingly.

When the reformation of the coinage came to be discussed, in the reign of William the Third, Mr. Lowndes, the secretary to the Treasury at that time, considered that the stamp and the denomination fixed the value of the coin; but Mr. Locke^a asserted that coins were merely pieces of

^a Further Considerations concerning Raising the Value of Money.

bullion, and that prices had risen on that occasion because people saw that there was less of this bullion in the clipped and worn coins, and proportioned their demands in such a manner as to obtain for their goods the proper equivalent in silver bullion. The arguments by which he supported his theory were long considered satisfactory, and money is called by many economists a universal equivalent, as distinguished from a sign of value ; “ but there were some incongruities,” says Lord Liverpool,^a “ in the value of the gold and silver coins, and of the price of bullion with reference to them, which seem to prove that the events which then happened, by no means correspond with the conclusions which, in Mr. Locke’s opinion, resulted from the principles laid down by him, and afford strong reason to infer that there are other causes which may sometimes influence the value of coins, while they are current only within the realm, besides the intrinsic value of the metal in such coins.” The incongruities alluded to by Lord Liverpool seem to have been as follows,—the market price of silver bullion was, at this time, 6s. 3d. per ounce, and the exchanges constantly from 25 to 30 per cent.

^a Letter to the King, p. 79.

against us, thus indicating that the coin had, on the average, lost one quarter of its value. But it was found to have lost, not a quarter only, but nearly one-half of its weight. £57,200 of coin were weighed, the weight ought to have been above two hundred and twenty thousand ounces, it was found to be under one hundred and fourteen thousand ounces.^a To correspond with such a deficiency of weight, the market price of silver ought to have been nearly ten shillings per ounce, if the value of the coin had depended solely upon the quantity of pure metal contained in it, and the exchanges should have been nearly 50 per cent. against us. The purchasing power of the currency was, in reality, depreciated in a much less proportion than that in which the quantity of pure metal was diminished. Lord Liverpool suggested no explanation of this difficulty, but Mr. Ricardo,^b at a later period, maintained that the market price of bullion did not rise, and the foreign exchanges did not fall, on this occasion in proportion to the diminution of the quantity of pure metal in the coin, because the coin, though much increased in quantity by the illicit coining,

^a Macaulay, vol. iv., p. 624.

^b See the chapter on Currency, in his Political Economy, and Reply to Mr. Bosanquet, Political Works, p. 347.

which was carried on to a large extent at that time, yet existed in a degree of scarcity which gave it an artificial value ; there was not enough of it to supply the machinery for exchanging the commodities of the country at double their former prices, though more than enough to circulate them at the former rate, and, therefore, though prices rose, they were kept from rising to the full extent of the deficiency of pure metal.

It is, certainly, highly probable that the currency, though extended at this time, was not increased in the proportion in which the coin was debased, for coining, though a very profitable, was a very dangerous occupation ; numbers of coiners and clippers being hanged or burned. And, as no other reason than that alleged by Mr. Ricardo can be given for the comparatively small fall in the exchanges and rise in the market price of bullion, we must allow, that under circumstances such as existed at this time, when the coin was allowed to circulate in a worn state, and it was the habit of the people to use the coins of the country as the only, or, at least, the chief instrument of exchange, the value of these coins depends upon their number and not upon the quantity of pure metal contained in them.

There are other circumstances in which, by

analogy to this case, we may infer that the value of coins depends upon their number. The expense of manufacturing the coin is, with us, borne by the state, but in some countries a small portion of all the bullion brought to the mint is kept back as the cost of the workmanship. This deduction is called the seignorage. In these countries, therefore, even when the coins are new, all economists allow that they must circulate at a higher value than an equivalent weight of pure metal—they must, like the worn coins, be tokens or signs of value, and coins much worn or affected with a very high seignorage, must approach in their nature to bank-notes. When, therefore, we find metallic money considered as a universal equivalent as distinguished from a mere sign of value, we must remember that this can be true as to the internal circulation only when, as in this country, the money is coined at the expense of the state, kept up to its full value, and allowed to be melted or exported, treated, in fact, just as bullion.

We shall see that, even when the money of the country is similar to that now in use with us, it is still a very important question whether prices depend upon the number of the pieces or upon the intrinsic value of them.

When a reformation of the coin had been

decided upon, the question naturally arose, Should the ancient standard be retained, or should the new coin be issued at a standard which would render it equal to the average of that then in circulation? The second of these plans was supported by Mr. Lowndes, amongst other reasons, on the ground that, as the depreciation of the coin had lasted for a long time, the greater part of existing contracts had been formed with reference to it, and that to issue the new coin at the lower standard would leave those contracts unaffected, while to retain, or, rather, to restore the ancient standard, would injure the debtor to the amount of the difference between the old and the new coin. Notwithstanding this argument, which, perhaps, was not very distinctly urged by Mr. Lowndes, it was resolved, on the advice of Mr. Locke, who relied upon the fact that the debasement of the coinage had not been recognised by the state, to adhere to the ancient standard. The light coin was called in and replaced by pieces of full weight, at a loss to the nation of nearly three millions sterling.

When the silver was recoinced, the market price of silver bullion fell nearly, but not quite, to the mint price; that is, an ounce of silver bullion was still rather more valuable than an

ounce of silver coin. This difference in price is supposed to have arisen from a demand for silver bullion for exportation, and from the laws which at this time prohibited the exportation of coin; there being thus a demand for bullion which did not exist for coin, the former was the more valuable. Nor did the value of the guinea fall quite so much as it ought to have done, according to the relative values of gold and silver in the bullion market. It is said that the people had been accustomed to the use of gold coin while silver was out of circulation during the recoinage, and that they set voluntarily too high a value on the guinea, which passed currently at 21s. 6d. The consequence was, that it became profitable to procure the silver coin in exchange for guineas, and to melt it down; and the new silver coinage, which disappeared very rapidly, is said to have been melted down on this account. To prevent this, on the advice of Sir I. Newton, the guinea was ordered by proclamation to pass for 21s. only. The guinea was said to be still too highly rated as compared with silver bullion; it was still more profitable to pay a debt in gold than in silver, and for this cause gold gradually came in practice to be the chief currency, and the only actual

standard in lieu of silver,* as every one chose to discharge his obligations in that metal which was overrated with respect to the other. In the year 1774, the gold coin, which had become much worn, was called in and recoinced. At this time the silver coinage was also in a very debased state, but as it had now ceased to be the principal currency of the kingdom, and existed only in sufficient quantity to afford the necessary change for the gold, a guinea, both before and after the recoinage of the gold, continued to exchange for the same number of shillings. At this time, also, a bill was passed enacting that no tender in payment of money made in the silver coin of the realm should be allowed to be a legal tender for more than according to its value by weight, after the rate of 5s. 2d. for each ounce of silver.^b This Act, in the then state of the silver coin, amounted to the establishment of gold coin as the only legal tender, and the standard by which all property was measured, though silver was not formally deprived of its character in this respect until the year 1816.^c In this country

* Lord Liverpool on Coin, p 85.

^b 14 George III., c. 42.

^c 56 George III., c. 68.

gold of the proper standard is now coined by the mint without any charge, and to any extent ; but silver bullion is coined only by permission of Government.*

It is to be observed that if the large number of defective pieces of silver coin existing in the reign of William the Third had been replaced, as seems to have been the case, by an equal number of pieces of full weight, there must, according to the views of those who maintain that prices depend upon the quantity of pure metal in the coin, have been more bullion employed for currency than was requisite on a comparison of the value of bullion and commodities, and a part of the new pieces would naturally be melted down and withdrawn from the currency ; and, again, unless the number of pieces had been diminished, prices, according to the theory of those who consider that prices depend upon the extent of the currency, could not have been reduced by the new coinage, as was the case, and as was expected by the advocates of the restoration of the coin, one of whose great arguments in favour of that measure was the high price of the necessaries of life.

* 56 George III., c. 68.

There is no trace of any stimulus having been given to industry by this depreciation of the coin, and the extension of the currency and general rise of prices by which it was accompanied ; on the contrary, we find again, on this occasion, that the working classes were great sufferers. Nor does the restoration of the old standard appear to have given any check to commerce ; the difficulties which occurred from want of money during the recoinage ceased when it was completed, and would apparently have been as great had Mr. Lowndes's plan been adopted. The benefits derived by the whole community from a steady measure of value, seem to have completely overshadowed the effects of the gains and losses of those who were borrowers and lenders.

The events of this period would seem to prove two points : first, that when no care is taken to keep the coin up to its weight, money is certainly not an equivalent commodity exchanged for the goods purchased by it, but a token or sign of their value ; and, secondly, that, at least where there is no system of credit to be stimulated by it, an extension of the currency has no beneficial effect on the industry of the country.

CHAPTER II.

FIRST PERIOD OF A MIXED CURRENCY OF GOLD
AND BANK-NOTES CONVERTIBLE FOR GOLD.

Rise of the Modern System of Credit and Banking.—Its supposed Effects on the Value of the Precious Metals.—Prevailing notion that Money constitutes National Wealth. Plan to increase the Currency by Issues of Notes on the Security of Land.—Dr. Smith's Inquiry into the Nature and Causes of the Wealth of Nations.—His Views of the Sources of National Wealth, of the Nature of Metallic Money, of the Distribution of the Precious Metals throughout the World and in each State, and of the Measure of Prices.—Difficulties connected with these Views.—Dr. Smith's Statement of the Causes of the Exportation of the Precious Metals.—His Views as to the Nature of a Loan of Money.—Mr. Hume's argument that Money, while increasing, encourages the National Industry and lowers the Rate of Interest.—State of Trade and Banking on the Continent at this time.—Paper Money of the United States, of France, and of Russia.—Commercial Distresses of the Period.—Evidence as to the Connexion between these Distresses and the Issues of Bank-notes.

Up to the end of the seventeenth century it might, perhaps, be assumed, without much error, that the commodities of the country were circu-

lated by means of coin only ; but commodities can be circulated in a very different manner. The wholesale importers or producers of goods may supply their customers on credit, merely entering in their books the amount of the debts and the time of payment, their customers may dispose of these goods to other persons in the same manner, and so the transfer may go on until the goods come into the hands of the consumer. Goods may thus circulate without either barter or money, provided the period of credit given on the first transaction be long enough to include the several periods of credit given on the subsequent sales ; but not only may goods circulate without money, but a species of money may be created by their circulation. The original vendor, instead of entering his customer's debt in his books, may demand from him a written promise to pay the purchase-money, should the customer's reputation for wealth be good, the vendor will be able to use his promise to pay as money ; he may go into the market with it, and, by handing it over to a third person, may get goods for it. The person who receives this promise-to-pay may, in like manner, hand it over in payment to a fourth person ; and it may pass from hand to hand until the time comes which

is mentioned for the payment of the money, when the holder for the time being of the written promise will receive the amount. It is evident that such a promise-to-pay, in the course of its progress, may circulate many commodities besides those the transfer of which called it into existence, and that it performs some of the functions of money. In early times, our law prohibited the assignment of debts, probably with a view of protecting debtors from oppression; but in the reign of William the Third, inland bills of exchange were allowed to pass from hand to hand by indorsement; and in the succeeding reign the like privilege was extended to promissory notes. From this time, the new system of trade upon credit may be said to have commenced, and it became customary, on account of the facilities which they afford in recovering the amount of a debt, and from the other advantages which they possess, to require either bills or promissory notes, in many instances where sales were made on credit.

It sometimes happened that the holder of a bill required the money before the time of payment came; in this case persons were always found ready to cash the bill for him, deducting from its amount the interest of the money ad-

vanced up to the time of payment of the bill. This is called discounting the bill. A great deal of this business soon fell into the hands of bankers, and they cashed the bills which they discounted, not with gold, but with their own notes or promises to pay gold on demand. Bankers also issued notes or promises to pay money to such persons as required advances from them; they received deposits of money from their customers, and it became customary to make payments by cheques or orders upon the bankers to pay a certain sum out of the money so held in deposit. These cheques sometimes passed from hand to hand, and circulated other goods as well as those for payment of which they were drawn, and by these means written instruments still more completely supplied the place of coin.

The Bank of England, established in 1694, was connected with the state by the loan of the greater part of its capital to Government, and, so far as its capital was concerned, the security for the convertibility of its notes was, from the first, not entirely bullion, but to a considerable extent the national credit. In 1708, an act of Parliament was passed, prohibiting any firm consisting of more than six partners from issuing notes,

thus giving the bank of England a species of monopoly by diminishing the amount of security by which the notes of the private bankers could be supported. Country banks began to appear about 1750 ; they issued notes for very small sums, and payable only on conditions with which the holders were not likely to be able to comply, in Yorkshire, notes were issued for sums of 5s. and even of 6d., payable on condition that the bearer brought change for a guinea.* These practices being found very injurious to the poorer part of the nation, an act was passed in 1775, prohibiting the issue of any note under 20s., or on any condition, and declaring that all notes previously issued on conditions should be payable on demand. By a later act, passed in 1777, the lowest sum for which notes could be issued was raised to £5.

The bank of Scotland was established in that country in 1693, and many other banks shortly afterwards. None of them were connected with the state in the same manner as the bank of England. The act restraining the number of partners in a bank issuing notes to six, did not extend to Scotland, and the number of partners in most of the Scotch banks is considerable.

* *Wealth of Nations*, p. 143. McCulloch's 4th edition.

These banks, like the English country banks, originally issued notes for small sums, and reserved to themselves the option of paying them on demand or at the expiration of six months with interest; but in the early part of the reign of George the Third, all notes for less than 20s. were prohibited in Scotland, the insertion of this optional clause in them was forbidden, and all notes then issued were made payable on demand. The Scotch banks have always possessed the confidence of the people, and their notes have entirely superseded the use of coin in that country.

The bank of Ireland was established in 1783, on the plan of the bank of England, its capital was lent to Government, and its monopoly of the issue of notes was secured by a similar limitation of the number of the partners in every bank issuing notes.

It is evident that the connexion between the currency and the price of commodities, or the state of the national industry, has now become much more complicated—the coin appears to play a less important part in the distribution of property and the determination of its value—exchanges are made by means of bills and notes as well as by coin, and even by credit, without the use of a circulating medium of any kind, though

they still have a certain reference to the coin. We have to consider the direct effect of this new currency in raising prices and encouraging industry, its collateral influence in these respects through its effect on credit, and the influence ^{exerted} ~~exercised~~ by credit itself upon the social economy, independently of a currency of any kind.

One obvious consequence of this new mode of conducting business is, that a very much smaller amount of coin may be used than would have been required had all exchanges been effected by it. A part of the bullion formerly employed as coin would then be no longer required for that purpose, and would be used as plate and ornaments; but before its consumption for these purposes could be increased, its value must fall. Mr. Wheatly* accordingly supposed that bullion fell so much in value on account of the introduction of the system of credit, that prices were more affected by this event than by the discovery of the American mines. The tables of prices upon which he founds this theory are not of much authority, nor is it probable that the use of paper instead of coin was, at this time, sufficiently universal to produce any effect upon the value of

* Wheatly on Commerce, p. 178.

bullion, but there seems no theoretical error in the supposition of a great fall in the value of bullion, from the more general use of paper as money.

It may, perhaps, be in the use of written forms of credit, that we are to find an explanation of a very curious fact, which the reader probably remarked in the account of the rise of prices consequent upon the discovery of the rich mines of America, in the time of Elizabeth. On that occasion prices rose steadily until about the year 1640, after which time they maintained the same level for a long period. It is generally said that the annual supplies of silver, though still very large, were no longer more than just sufficient, after replacing the wear and tear of the vast mass of it by that time accumulated in the world, to circulate the annual increase of commodities ; but it is difficult to conceive that such a close correspondence between the increased amount of commodities and of the money to circulate them should have accidentally endured for so long a time. It seems a more natural explanation of the steadiness of prices, to suppose that the use of paper credit varied so as to keep the demand for silver and its value constant.

But the most important question which arose

immediately after the introduction of this system of credit was, as to the power of these forms of paper money directly to extend the currency and affect prices.

At the commencement of the period which we are now examining, the belief that the national prosperity was increased by an extension of the currency was almost universal. An abundance of money was supposed to give the landowners really high rents, and the merchants really high prices, and to lower the rate of interest and facilitate the borrowing of money, thus assisting young merchants of no capital but great ability, by whom, according to the celebrated Sir Josiah Child, the greater part of our commerce was carried on. The only persons who could be hurt by such a state of affairs were the moneyed men, who with the old prejudice against taking interest for the use of money, were held in slight esteem; they were considered the "worst enemies of the nation, who had done more injury to the gentry and yeomanry than an invading army from France (the great bugbear at that time) would have had the heart to do." * The difficulty was to bring about such an extension of the currency,

* Macaulay, vol. iv., p. 494.

and this seemed to be removed by the introduction of bank-notes. These appeared to discharge all the functions of money, and it was supposed that they might be increased to any extent without loss of value, if the public could but be persuaded of their security. The favourite scheme was to issue notes upon land, as that afforded, it was supposed, unquestionable security; the landowner, it was thought, while still using his land, might by issuing notes upon it, produce an additional amount of property of equal value, which might also be profitably employed. This was the scope of the land bank planned by Chamberlayne in England, in the reign of William the Third, and of the proposal made by the famous Law to the Parliament of Scotland, to appoint a commission to coin notes on the security of land. As in this scheme any person was to be at liberty to pay these notes into the hands of the commissioners at pleasure, and to receive again the security on which they had been issued, it was supposed that the public would apply to the commissioners for these notes when money was required, and redeem their estates by repaying them when it was no longer wanted, and that in this manner just the amount of money necessary for the business of the

country would remain in circulation. This scheme is plausible, but we shall soon see that it must have failed to succeed in extending the currency.

It was in a great measure to expose the fallacies of these views that Dr. Smith published his celebrated "Enquiry into the Nature and Causes of the Wealth of Nations." In this work, which is universally allowed to be the foundation of modern political economy, and which has in many respects had great influence upon the opinions of most of those who have taken part in the discussions upon the currency, Dr. Smith maintains that commodities and not money form the wealth of a nation; that commodities are produced only by labour and the employment of raw materials, tools and subsistence, previously stored up, or capital, and not by money, which is neither a tool to work with, nor a material to work upon, but only the instrument by which commodities are distributed; he maintains that the mines of gold and silver discovered in America added but little to the real wealth of the world; that it was not the increase of money, but the progress of good government, the destruction of the feudal system, and the opening of new markets, which caused the advance in industry and

wealth which was observed in many parts of Europe at that time, and he refers as a proof of his views to the state of Spain, Portugal, and Poland, countries in which the amount of gold and silver money had increased, but which from bad government remained as beggarly as ever.

The theory of the dependence of prices on the extent of the currency had not, as yet, attracted attention; and Dr. Smith, like Mr. Locke, considers metallic money nothing but a commodity. From the inconvenience of barter, it must always have been an object with every man to have by him a certain quantity of some commodity or other which he imagined few people would be likely to refuse in exchange for the produce of their industry. Men, for many reasons, agreed to employ the precious metals as this commodity; at first, they settled their transactions by weighing out portions of gold or silver, but as it was difficult at the moment to weigh these metals with sufficient accuracy, and still more difficult to ascertain their purity, it became customary for the ruling power in the State to divide them into uniform pieces, stamped with a particular stamp denoting the weight and the degree of purity.

Dr. Smith goes on to state that the amount of

gold possessed by every nation will depend upon its power of purchasing it with commodities, and that this quantity will be divided by the people into three parts, one of which will be used for plate and ornament, another as coin for the internal circulation of their commodities, and a third in the shape of bullion for the adjustment of their foreign transactions, bullion being the money of the great mercantile commonwealth, and used in facilitating exchanges between individuals of different nations, as coin is between individuals of the same country.*

Dr. Smith does not suppose the whole bullion set apart as money to be constantly employed in circulating commodities. Merchants, in all countries in which there are no banks, must keep by them unemployed considerable sums of money to meet occasional demands, and, where banks exist, these occasional demands will be supplied by the bankers, who will be obliged to keep a reserve for that purpose, though evidently of smaller amount than the aggregate of the sums kept by the merchants themselves. Dr. Smith seems to consider that, when a purchase is to be made, the buyer takes from his stock of gold such a portion

* Book iv., c. 1.

of it as he thinks equivalent to the article to be purchased, and that the seller, on his side, parts with his goods for what he considers an equivalent portion of the commodity gold, neither party taking into account the amount of the stock of gold which is available at the time for making purchases. Prices then depend upon some intrinsic value inherent in the gold, and not on the amount of the currency, which amount, in fact, depends upon the business to be done.

We are inclined to accept the views expressed by Dr. Smith in these passages, for he seems to describe what is of every-day occurrence ; here, however, in reality, we meet one of the great difficulties of the currency question. Many economists, including the supporters of the Bank Act of 1844, maintain that prices, or the proportion in which gold will exchange with any other commodity, must depend not upon any intrinsic value of gold as compared with commodities, but upon the quantity of that metal which is capable of being offered in exchange for goods, for it is the quantity of any article capable of being brought to market which determines its value, which, in the case of gold, is the price of commodities. Now, the quantity of gold capable of being offered in exchange is, they say, the whole

amount of that metal in the country not employed as plate and ornaments; prices, therefore, depend upon the extent of this amount. We shall see that the establishment of this view is essential to the theory of the export and import of bullion, which is the grand foundation of the Act of 1844.

The reader will remember that increased productiveness of the mines of gold would ~~lower~~^{raise} prices under either supposition, provided the amount of commodities to be circulated remained constant. The value of gold as a commodity would be lowered in the one case, and in the other the quantity of the currency would be increased.

Dr. Smith supposes that in any given state of the wealth of a nation a certain amount of gold would be required to circulate its commodities. When just the amount of gold was employed as coin, the channel of circulation would be full.* If while the commodities remained the same, and no change took place in the productiveness of the mines, the quantity of coin in any country exceeded this amount, the channel of circulation would become too full and would overflow, the

* Book ii., c. 2.

people would find that they had more money than they required, and that they could export a part to other countries. Here again is a difficulty : How can the people feel that the national channel is so full as to permit exportation, when they are constantly in the habit of putting away their money in reserve to meet contingencies—how are they to ascertain that they have put away enough for that purpose, and that they may safely export the remainder ?

Dr. Smith then considers what happens on the introduction of paper into the currency ; he supposes a person of undoubted credit to establish a bank and to issue notes, the people would look upon these notes as money, and they would now find that the channel of circulation was too full, just as if more coin had been issued, and would be desirous of making use of part of their money abroad, and as the gold was money both abroad and at home, while the paper was money at home only, the gold would be exported and the paper would take its place, some small amount of gold only being required to be kept by the banker, to meet occasional demands for the conversion of the notes. The result would be the substitution of a very cheap for a very expensive mode of distributing the commodities of the

society. The exported gold might be exchanged for provisions, and the materials of manufacture, and the wealth of the country would be increased. Coin is like a high road which distributes the corn and other crops of the adjoining fields, but produces nothing itself; the substitution of paper in place of coin suspends this high road in the air, and allows the ground which it formerly occupied to be used as corn-fields and pastures.

The small amount of gold which Dr. Smith mentions as necessary to be kept to meet occasional demands for payment of the notes in gold, must evidently be of a totally different nature from the reserve, which in the case of a metallic currency the people kept by them to meet occasional demands for mercantile purposes. These latter reserves must now be kept either by individuals or by bankers in the form of notes. We must apparently consider the circulation as consisting entirely of notes, the fund of gold kept by the bankers being merely to replace them when distrust arises, not to add at any time to the amount of the currency.

If the bankers issue more notes than will supply the place of the gold which would have circulated if no notes had been in existence, the excess, Dr. Smith says, will constantly be

returned to them ; all the gold will, in the first place, go abroad, and the people then, finding they had too much money, and having no gold left to export, would bring the excess of notes to the bankers to be exchanged for gold, which could be sent abroad, and he illustrates this position by the example of the Ayr bank, which was established in Scotland for the express purpose of extending the circulation at a time when many important undertakings were on foot, and when the enterprise of the country was supposed to be languishing for want of money. Many of the first noblemen in Scotland were partners in this bank, and their estates were worth several millions. There could be no doubt of the security on which their notes were issued, nevertheless, the attempt to extend the currency utterly failed, the notes were constantly returned to the bankers, who shortly became bankrupt. Dr. Smith also states that both the Scotch banks and the bank of England had for a long time been put to great expense in purchasing bullion to meet the demand upon them for gold, in consequence of their having issued too many notes.

Dr. Smith points out that the circulation of every country may be divided into two branches, the circulation of the dealers with one another,

and the circulation between the dealers and the consumers ; each requires a certain stock of money to carry it on, for both are going on at the same time. If the notes issued by bankers are for considerable amounts, the circulation of them will be confined to transactions between dealers ; and the transactions between dealers and consumers, being for smaller sums, will be carried on by coin ; and he advises that no notes should be issued for less than £5. As the bank of England issued no notes below £5, the circulation, so far as the bank was concerned, might be said, according to Dr. Smith's view, to consist entirely of paper, when she had issued notes enough for the circulation between the dealers ; she might, therefore, have to buy gold if she issued too many notes, though there were still many guineas circulating in the country. Dr. Smith observes, that the value of the goods circulated between the different dealers can never exceed the value of those circulated between the dealers and consumers, whatever is bought by the dealers being ultimately destined to be sold to the consumers. It would seem, therefore, that prices cannot be high from an issue of paper, which circulates only among dealers, while the circulation between dealers and consumers is carried on by gold.

Dr. Smith maintains that bank-notes, which are paid in gold when presented, must be equal in value to gold, and that whatever is bought with such paper must be as cheap as if bought with gold. He does not allow that the increase of the notes can augment the currency, because a quantity of gold is always taken from the currency, exactly equal to the quantity of paper added to it; and he supports this view by showing that the prices of articles had not been raised in Scotland by the establishment of many banks, and that prices were not higher, other circumstances being considered, in England, where bank-notes were in general use, than in France, where there were no banks issuing notes.* In this passage, Dr. Smith evidently considers that prices depend upon the quantity of money capable of being offered for them, for he supposes that the notes, if they could have remained in circulation, would have raised prices.

A difficulty may here, perhaps, strike the reader. As the circulation of the larger bank-notes is confined to the wholesale dealers, how can an increase of these notes cause an immediate displacement of the coin, which circulates

* Book ii., c. 2.

only between the dealers and consumers? It would seem that the increased amount of these notes would be taken to the bank and exchanged for part of the gold held in reserve, and would diminish that reserve without affecting the coin in circulation with the people. An excess of notes would, therefore, show itself in the shape of a drain of bullion, and not by a rise in prices at home.

Now, we may naturally ask, while these changes were taking place with respect to the portion of bullion set apart by the nation for their internal circulation, what became of that part of it which was necessary for the adjustment of the foreign transactions; had this, after the establishment of the bank of England, come to be confounded with the reserve held by that bank for meeting occasional demands for payment of its notes; and were some of the drains upon its treasure caused, not by over-issues of its notes, but by the adjustments of foreign transactions required by trade, quite irrespective of the state of the currency? Here we have a hint of some more of the difficulties of the currency question.

The position of the bank of England at the time of the great recoinage, in the reign of Wil-

liam the Third, offers an opportunity for the application of the views which we have been considering. The bank-notes ought to have occupied the place which the coin would have occupied : they were, therefore, as much debased as the coin. When that coin was called in and reissued of full weight, bank-notes must have still, in number, represented the worn coin ; they must have existed to a greater amount than they could have done had they been issued in a currency of full weight ; they ought, therefore, to have been depreciated when the recoinage was completed ; accordingly, they fell to a discount of 17 per cent.* The bank was obliged, on this occasion, to increase its capital and withdraw a large number of its notes before it could raise them to par, a circumstance which seems to show that the channel of circulation for £20-notes (the smallest notes then issued by the bank) had, even at this early time, been quite filled by bank-notes, or the excess in the currency would have ceased of itself, by gold, to a certain extent, being driven out of circulation. It seems, also, to show that it was the excess of notes, and not any want of confidence in the solvency of the bank, which

* Lawson's History of the Bank, p. 72, and Bullion Report, p. 17.

caused the notes to be at a discount. We should, however, mention that during the time when money was extremely scarce, before the recoinage was completed, the bank was unable to pay its notes in full; it paid only 15 per cent. on notes presented for payment. At this time, too, the goldsmiths, who were opposed to the bank, collected its paper and made a sudden demand for payment, which the bank refused for the time, leaving them to seek their remedy at law.^a These circumstances may have injured the credit of the bank, and may be sufficient to account for the discount to which the notes had fallen. It may be mentioned that it was on this occasion that exchequer bills were first issued; they were drawn for various sums, from £100 down to £5, and proved a most effectual substitute for money; they answered this purpose so effectually that it is said the Government proposed, at one time, to issue twenty and fifteen shilling bills.^b

We can now see what would have been the fate of Law's scheme for coining notes on the security of land. So long as there had been any coin in circulation, it would have been displaced by the notes, and they would have main-

^a Macaulay, vol. iv., p. 696.

^b Macaulay, vol. iv., p. 698.

tained their value and remained in circulation, but so soon as all the coin was gone they must have fallen in value, and those who held them would have demanded the land on the security of which they had been issued. The currency, therefore, would never have become more extensive than when metallic.

Dr. Smith in another part of his work states that what is called a loan of money is in reality a loan of capital. What the borrower really wants is, not the money, but the money's worth. By means of the loan, the lender assigns to the borrower his right to a certain portion of the annual produce of the land and labour of the country, and the quantity of capital to be lent at any time, in any country, is regulated, not by the value of money, but by the value of that part of the produce which, so soon as it comes from the hands of the producer, is destined for replacing a capital, and which the owner himself does not want to employ.

The money is, as it were, but the deed of assignment which conveys from one hand to another those capitals which the owners do not care to employ themselves. Those capitals may be greater, in almost any proportion, than the amount of the money which serves as the in-

strument of their conveyance, the same pieces of money successively serving for many different loans as for many different purchases. Dr. Smith maintains, which seems a necessary consequence of these views, that the rate of interest is not affected by changes in the amount of money, but of the capital to be lent.

Dr. Smith seems to think that when banks have advanced to merchants, that part of the capital of their business which the merchants would otherwise be obliged to keep idle in their own hands to meet sudden demands, and when they have to the proper extent substituted paper for gold, they have done all that banking can do to assist commerce.* He appears surprised that the introduction of banks into Scotland should have caused so great an increase of prosperity as he acknowledges took place. Like most other economists, he is so anxious to prevent his readers from considering credit a producing power identical with capital, that he appears to have underrated the effect which credit has in producing wealth by facilitating exchanges. Written forms of credit and the system of banking were, to the complex state of society now existing, what money was to the simple commu-

* Book ii., c. 2.

nities who first adopted the use of it. We shall find, too, that credit has the effect of allotting the capital of the society to those hands which are most capable of perfectly employing it.

Dr. Smith makes no allusion to the probable influence of any written forms of credit on prices except bank-notes, which alone he seems to have considered as being in the nature of money, nor does he touch upon the effect of credit upon prices.

Mr. Hume agreed with Dr. Smith that the quantity of gold and silver existing in any country is in itself a thing indifferent, and that in those cases in which populous nations in the enjoyment of plenty of commodities possessed but little money, this state of affairs resulted from the manners and customs of the people who were satisfied with a simple style of living. When such a society becomes more refined, more exchanges are required and money increases; but this is a consequence, not the cause of the advancement.

Mr. Hume, however, thought that while an increase in the quantity of money was actually going on, industry would be quickened, he says,^a

^a Essay on Money.

“In every kingdom into which money begins to flow in greater abundance than formerly, every thing takes a new form, labour and industry gain life; the merchant becomes more enterprising, the manufacturer more intelligent and skilful, and even the farmer follows the plough with greater alacrity and attention.” His explanation of this phenomena is, that “when any quantity of money is imported into a nation, it is not at first dispersed into many hands, but is confined to the coffers of a few persons, who immediately seek to employ it to advantage, they employ more workmen than formerly, who never dream of demanding higher wages, but are glad of employment from such good paymasters; if workmen become scarce, the manufacturer gives higher wages, but at first requires an increase of labour, and this is willingly submitted to by the artisan, who can now eat and drink better; he carries his money to the market, where he finds every thing at the same price as formerly, but returns with greater quantity and of better kinds for the use of his family; the farmer and gardener, finding that all their commodities are taken off, apply themselves with alacrity to the raising of a fresh supply, and at the same time can afford to take more and

better clothes from the tradesmen, whose price is the same as formerly, and their industry only whetted by so much gain."

This argument is one of the strongest of those which are brought forward to prove that an increase of money promotes the general prosperity; we shall find it considered by several economists; at present it is only necessary to observe, that Hume here supposes that there are always some labourers unemployed, for, if the first possessor of the increasing money had to take them away from his neighbour, he could not do so without at once offering them higher wages. Again, the argument requires the supposition that at every market there is a quantity of produce which is thrown away, for, if not, if the artisan has to get it away from some other customer, he at once raises the price. It is probable that this surplus of labour does always exist in this country, but no corresponding surplus of commodities. An increase of money, therefore, is likely to benefit the capitalist employed in production, but not the labourer.

Mr. Hume supposed, also, that if the new acquisitions of money fall into few hands, the rate of interest will be raised, for the owners will seek a revenue, either by the purchase of land or

by interest ; but after these sums have been dispersed, the rate of interest falls again, whatever may be the amount of money in the country. There seems no objection to this view, for prices cannot be raised until after the loan has taken place ; accordingly, we shall find it is admitted by Mr. Ricardo and other economists.

The system of banking and trade upon credit did not prevail so extensively on the continent at this period as in this country. In 1719, Law established a bank of issue in France, for the express purpose of increasing the money of the country. This bank, shortly after it commenced business, became connected with the Mississippi Company, and was then transferred to the government. In the course of the stock-jobbing operations which ensued, an enormous number of notes were issued. These notes were forced into circulation, many payments were required by the government to be made in them and not in coin. Gold and silver were permitted, even ordered to be exported, and, finally, an arrêt was issued forbidding any person to retain silver or gold in his possession to a greater amount than 500 livres. A very great rise took place on this occasion in the price of all articles, but the bubble burst before sufficient time had

elapsed to decide whether this rise was caused by the spirit of speculation or by the actual extension of the currency; in less than three years the notes fell to a hundredth part of their nominal value.

The Mississippi scheme diffused in France a feeling of distrust in all banks, and no attempt was made to form a bank of issue in that country until the establishment of the Caisse d'Escompte, or Bank of Discount, in 1776. Very few banks even of deposit existed in that country until a very recent period, and all payments even between persons at a distance from each other were made by the transmission of silver coin at a great expense. The Caisse d'Escompte discounted bills in its own notes payable on demand in silver. It flourished for some years; it then became embarrassed by large loans to Government just before the Revolution, and was finally suppressed by the Convention in 1793.

In Holland and Hamburgh there existed no bank issuing notes, nor even any public bank employing its deposits in discounting bills. The banks of Amsterdam and of Hamburgh were banks of deposit in the strictest sense of the word, and all the gold and silver that was paid into them was understood to remain stored up in

their vaults. The object of these banks was not to increase the amount of money or to obviate the necessity of possessing a large amount of gold, but simply to meet the difficulty which occurred in countries, like Holland and Hamburgh, of great commercial business and small territorial extent, from the variety of coin of different countries which their extensive mercantile enterprises brought into circulation. This coin the banks received at its intrinsic value, giving credit for the amount in their books, and payments were made by transfers from one account to another. These banks also received deposits of bullion, for which they granted receipts, by the transfer of which payments were also made.

The notes issued by the government of the United States of America, during the contest with the mother country, afford an example of the consequences of an extensive issue of paper, the notes first issued were equal in value to silver, but they became rapidly depreciated, and at length, when the amount of them had reached the sum of four hundred millions of dollars, they ceased to circulate. Mr. Jefferson taking into consideration the state of depreciation which existed at the period of each successive issue,

calculates that the real value given by the people for these notes was seventy-two millions of dollars. After the war the government of the United States proposed to pay them off with six millions of dollars, that being the amount which they calculated that the then holders had given for them. Mr. Jefferson candidly admits that the difference between these two sums, amounting to sixty-six millions of dollars, had been lost on the paper by the successive holders of the notes. This, he says, was a real tax on the people of the United States, who actually contributed those sixty-six millions during the war by a mode of taxation the most oppressive of all, because the most unequal of all.*

It is hardly necessary to remind the reader of the great creation of paper money by the revolutionary government of France. The celebrated assignats were originally issued as a means of making the national property immediately available. To avoid the delay which must have occurred before the price could be received on the sale of this property, notes were issued representing its value, which the officials who conducted the sales were bound to receive at their

* *Memoirs*, vol. i., p. 412.

value from the purchasers. For some time the assignats maintained their value, but, the number of them being very greatly increased, they became so depreciated that, at last, five hundred francs in paper were given for a cup of coffee. Considering the extreme uncertainty of property of all kinds in France at this period, we should not be able to draw a safe conclusion as to the exact extent to which the assignats owed their depreciation to their number. The most remarkable fact connected with this financial expedient is that, though the whole of the silver coin, amounting, probably, to one hundred millions sterling, entirely disappeared from the circulation, being sent abroad, according to Dr. Smith's theory, yet there occurred no fall in the value of silver in other countries. This fact would seem to shew that so large a sum as a hundred millions of silver might be thrown upon the market without causing a fall in its value ; but we must remember that it is possible that much of the silver did not really leave France, though it left the circulation ; it was probably hoarded.

The notes which we have hitherto considered, professed (at least at the outset) to be promises to pay money, and might have sustained their

value for a time from the hope that the promise would be performed ; but in some countries paper money, in the proper sense of the word, existed at this time.

In 1768, the Empress Catherine the Second of Russia established the Banque d'Assignat, to issue notes payable to the bearer. It did not appear distinctly in which kind of metallic currency these notes were to be paid, but it was assumed that the meaning was that they were to be payable in the copper money of the country, which passed only in small payments, which was depreciated as regarded the silver money, and which could not be melted down or exported ; in other words, they were not in reality payable at all in coin of any kind, and, of course, their value could not depend in any way upon that of coin. The amount first issued was only forty millions of roubles, which was moderate compared to the whole circulation of the country, and they were ordered to be taken in all payments which had been agreed to be made in silver, and to be received in all payments to the State. Under these circumstances, they rose to a premium of five or six per cent. over the copper money ; and in 1774, on the close of the war with Turkey,

they were on a level with the silver money. In 1786, the Empress issued assignats on the security of land and houses, and carried the total amount of paper money up to a hundred millions of roubles. From this time the assignats fell rapidly, though no difference was made with respect to the manner of their payment, and all the phenomena of a depreciated currency appeared. The foreign exchanges turned against Russia, the prices of all articles rose, and those who lived upon fixed incomes were reduced to great distress, in the number were included the employées of Government whose salaries had been fixed by Peter the Great, and were not raised by a Government which did not acknowledge that its currency was depreciated; and to the necessities arising from this cause, are often attributed the universal corruption and dishonesty which are said to exist amongst the public officials of Russia.*

We shall find that Dr. Smith's view that a currency cannot be extended by the issue of notes convertible for gold at will, is rejected by some modern economists of great eminence, who suppose, not only that the currency can be ex-

* *Storeh Economie Politique*, vol. iv., p. 196.

tended by those means, but also that the greater number of the instances of sudden commercial prosperity, followed by great distress, which have so frequently occurred, have been caused by such extensions of the currency, and the contraction of it which inevitably follows on the exportation of the coin. It is, therefore, important to note the circumstances connected with such events which tend to confirm or disprove this view.

Of the great commercial distresses of this period, we have seen that the Mississippi scheme was connected with the issue of a great number of bank-notes. It is said that the success of Law's banking operations at the outset, and, perhaps, the stimulus given to trade by the high prices caused by the notes, gave birth to the state of excitement which led the French nation into such a wild course of speculation; but our own South Sea bubble, which occurred in 1720, was unconnected with any banking operations, and the ardour of the public was excited simply by vague ideas of the richness of the countries of South America, and of the advantages to be derived from a trade with them, which had just been opened up by a treaty concluded with Spain on the establishment of the peace of Utrecht; at this time, too, the excitement was

more universal and carried to a higher pitch than has been known since bank-notes came into common use.*

In 1763, many failures occurred at Amsterdam and Hamburgh. These failures, says Macpherson, were attributed by some to the large sums owing by the French and British armies, and by others to the vast quantity of base money issued by the German princes during the war, for which the merchants had expected to receive the value, or at least a considerable portion of the value it was issued for. He himself suggests that they might be owing, in addition to these causes, to the peace, in consequence of which the trade enjoyed by those neutral places during the war was drawn off. The commercial distress at this time did not affect this country; it is remarkable only as occurring in countries where no banks of issue existed, and where such discounts as were effected were made in coin. Another crisis occurred in 1772, which is attributed by Macpherson^b to the spirit of launching into vast and boundless projects in commerce which

* See Macpherson, *Annals of Commerce*, vol. iii., p. 88, for an account of the extravagant projects and wild speculations of this time.

^b Macpherson, vol. iii., p. 524, 533.

were to be supported by artificial credit, and to gambling in the funds. We have seen that banking was, to some extent, connected with these events in Britain, in the case of the Ayr bank ; but it is remarkable that the distress was again on this occasion very great in Holland, where this cause for it did not exist, though great numbers of private bills of exchange had, doubtless, been issued. Sir Francis Baring says, that the circulations from Holland were very large at this time.*

The period between the conclusion of the American war and the commencement of that with revolutionary France, is always described as one of great manufacturing and commercial prosperity in this country. The year 1791, and the earlier part of 1792 in particular, are distinguished by the historians of this period as eminently prosperous, but in the month of November, 1792, many bankruptcies took place, and in March, April, and May of the succeeding year there occurred a commercial crisis of extreme severity. "Many houses," says Macpherson, "of the most extensive dealings and the most established credit failed, and their fall involved vast numbers of

* Pamphlet in defence of the Bank, vol. iii., p. 33.

their correspondents and connexions in all parts of the country. Houses of great respectability and undoubted solidity, possessing ample funds, which actually did, in a short time, enable them to pay every shilling of their debts, were obliged to stop payment. Amidst the general calamity, the country banks, which were multiplied greatly beyond the demands of the country for circulating paper currency, there being 280, or, according to other accounts, 400 of them in England and Wales, were the greatest sufferers, and, consequently, the greatest spreaders of distress and ruin amongst those connected with them.”*

On this occasion Mr. Pitt, in consequence of an application from some of the principal merchants, appointed a commission for advancing exchequer bills to the amount of five millions sterling, to such merchants, traders, and bankers, as should apply for them on security to be approved by the commissioners. This measure afforded immediate relief, only £2,202,000, were advanced, the whole of which sum was repaid, and hardly any of those who received this assistance became bankrupt.

This commercial crisis, in particular, is con-

* Macpherson's *Annals of Commerce*, vol. iv., p. 267.

stantly referred to as a striking example of the effects of unrestricted issues of bank-notes, though convertible for gold at the will of the holder, in extending the currency, raising prices, and encouraging speculation. There are, however, many circumstances which seem to shew that it is, at least, possible that this crisis might have arisen from other sources. The great prosperity which followed the close of the American war may be accounted for without supposing any extraordinary issue of notes. It was about this time that the system of internal communication by canals, commenced by Brindley, was brought to perfection. Arkwright's patent for spinning cotton expired in 1784, when his invention came into general use; and Watt completed his improvement on the steam-engine about the same time. The introduction of the banking system itself, exerting only its legitimate influence on trade, must have had a powerful effect. There were thus many reasons why business should have been brisk, and, under these circumstances, it is not at all improbable that a spirit of speculation might have arisen without any previous enlargement of the issues of notes. The suddenness, too, of the rise in prices in 1792, though

many banks had been in existence long before that year, seems to shew that it was not caused by banking operations alone, for if the banks had possessed the power of producing these effects at will, they would probably have produced them before. Many circumstances, too, shew that the distress was not caused by a mere collapse of bank paper. The first great increase in the number of bankruptcies occurred in November, 1792, just after the revolutionary war with France may be said to have broken out, for the British Ambassador had been recalled from Paris in the preceding August (though war was not declared by our Government until the ensuing January), a circumstance which must have given a shock to credit. Business was unusually checked by the timidity inspired amongst the holders of property by the spread of revolutionary doctrines. Commercial difficulties were at this time felt in the principal cities of the Continent in which no banks of issue existed,^a and the first failures, and those which caused the prostration of credit, were of mercantile houses in London and Liverpool, who could not, apparently, have been the most closely connected with the country banks.^b On the other

^a Tooke, *History of Prices*, vol. i., p. 178, note.

^b Chalmers's *Estimate*, p. 294.

hand, against the country bankers, are the facts that so many of them failed, that the exchanges had declined in 1792, and bullion had been exported—circumstances which are said to prove that a redundancy of bank-notes must have existed.

CHAPTER III.

PERIOD OF INCONVERTIBLE BANK-NOTES.

Suspension of Cash Payments by the Bank of England.—Bank-notes not made a Legal Tender.—Sir F. Baring's Pamphlet in Defence of the Bank.—Mr. Boyd attributes the High Prices to the Depreciation of the Bank-notes.—Mr. Thornton on Paper Credit.—His Views on the nature of Credit and of Bills of Exchange and Bank-notes.—On Variations in the efficiency of a Circulating Medium.—On the mode in which Prices are raised by an issue of Bank-notes.—On the Causes of the Exportation of Coin.—On the Exportation caused by a Bad Harvest.—Of the Power of the Bank to regulate the Country Issues.—On Objections to the Theory that Prices depend upon the Extent of the Currency.—Lord King and others on the Bank Restriction in Ireland.—The Exchanges become favourable in 1804.

WE now come to a most important event in the economic history of this country, namely, the suspension of cash payments by the bank of England in 1797. "The great and continued drains of bullion," says Macpherson, "in consequence of the war, the loans to the Emperor of

Germany, and other subsidies to foreign powers, and also the large sums payable for cargoes and freights of neutral ships taken,^a and which the foreign owners required to be paid in bullion, had raised the price of gold, on the 8th of October, 1795, to £4 4s. per ounce, and, our gold coin being only £3 17s. 10½d. per ounce, it was evident that the current money of this country, consisting almost entirely of gold, would be carried abroad to a very alarming extent.”^b From these or some other causes, the amount of bullion at the bank was not large when, in the beginning of 1797, the dread of an invasion from France, brought to a height by the landing of a few French troops in Wales, caused a run on the bank for gold. The demand had been very great during the week commencing with the 20th February, 1797; and on the ensuing Saturday the directors, alarmed at the rapid diminution of their cash, applied to Government for direction. The King came to town on Sunday, when a privy council was held, and an order issued forbidding the directors to issue any gold in payment until the sense of Parliament could be taken on the subject. This

^a These were ships laden with corn and bound for France.

^b Annals of Commerce, vol. iv., p. 407.

order was made public by the bank on Monday morning, and a meeting of the principal merchants and bankers of London was held the same day, at which they passed a resolution to receive bank-notes in payment of money due to them, and to make their payments in the same manner. This resolution was afterwards adopted by more than three thousand of the principal merchants, bankers, and traders.

These transactions taking place while Parliament was sitting, a committee was immediately appointed to inquire into the state of the bank, and the laws against the issue of notes under £5 were suspended. The committee reporting that the affairs of the bank were in a satisfactory state, the order of council was confirmed by act of Parliament,* and the restriction on cash payments continued to the 24th of June then ensuing. By this act bank-notes were not made in express words a legal tender, it was merely declared that payments made in them should be deemed payments made in cash, if made and accepted as such, and parties tendering payment in bank of England notes were exempted from the ordinary form of arrest for debt. The collectors of the revenue were also to accept pay-

* 37 George the Third, c. 45.

ment in notes. In November of the same year, a committee was appointed to consider the expediency of resuming cash payments. This committee reported that the bank was in a condition to resume its former manner of payment, which opinion was confirmed by a resolution of the board of directors to that effect; but the committee further reported that no inconvenience had been felt from the restriction on cash payments, and that as the circumstances which had rendered the suspension necessary might again occur during the hostilities, particularly as it was the avowed intention of the enemy to attack us through our finances, it appeared advisable to continue the restriction until the conclusion of peace. The report of the committee was (may we say unfortunately) adopted, and the restriction extended accordingly, until six months after the conclusion of a definite treaty of peace.

After the first few days business went on as before the suspension, the credit of the bank was not in the least shaken, and its notes circulated as freely as ever at their former value, or even, as it is said, at a premium for a short period. For a time gold continued in circulation with the bank-notes, but the number of guineas grew gradually less and less, and though some few re-

mained, which were used as presents, the fees of physicians, and the like, the currency, for all practical purposes, came to consist of paper only. It is quite clear that the expectation of receiving gold on the arrival of so uncertain an event as the restoration of peace, cannot have made the notes equivalent to gold. They must have circulated quite irrespective of this expectation, simply because those who took them believed they should be able to make their payments with them. Under these circumstances, the prices of commodities could have no connexion with the value of gold, and there was, apparently, nothing to influence them but the number of the notes, and here a very curious question arises :—Would prices depend upon the number of the one and two-pound notes which supplied the place of the gold which circulated between the dealers and consumers, or upon the whole amount of notes ? It would seem, that if prices are settled by the transactions in the retail trade, they must be influenced by that part of the currency only which is essential to that trade, and would not rise until the gold had disappeared, and one and two-pound notes had been issued to greater extent than the gold had existed.

It is to be observed that the bank of England,

in the hope of arresting the drain of gold, had greatly contracted its issues for some time before the suspension of cash payments. The average amount in circulation, for the three years ending December, 1795, having been 11,975,573, and the amount, in 1797, having been only 8,640,250, yet the price of gold was about £4 per ounce, and bullion was sent abroad even while complaints were made of the want of a sufficiency of circulating medium, and of a great fall in prices in consequence.* We shall see hereafter how important these facts are with reference to the question of the causes of gold leaving the country, and the propriety of attempting, in all cases, to retain it by contracting the currency.

Although there was no peculiar pressure for gold on the bank of Ireland, the Parliament of that country authorized the bank to suspend cash payments, for the sake of uniformity with what had occurred in England. The directors of the bank of Ireland soon turned the privilege to great advantage; their issues rose from £737,268, in 1798, to nearly two millions and a half in 1800.

The suspension of cash payments by the bank of England gave the first impulse to the long dis-

* See Mr. Boyd's Pamphlet, p. 11.



cussions upon the currency, which, with occasional intervals, have continued to the present day.

Sir Francis Baring^a observed, in a pamphlet in defence of the bank, that gold was drawn from it for three purposes: as a medium of remittance to foreign parts; for the purpose of hoarding, from a want of confidence in the Government and in the circulating paper; and to supply the country banks while confidence in the bank of England remained entire. He allowed that, when the foreign exchanges are unfavourable, every effort should be made to prevent the drain of gold; but while they are favourable, and the demand for gold arises from a shock to the system of credit in the country, the bank should continue its discounts, as all the gold issued must speedily return to it when confidence is restored, and to withhold the supply only increases the evil, thus, in 1793, when the exchanges were in favour of this country, the moment that confidence was restored by the grant of the exchequer bills to the tottering houses, the danger ceased. In 1797, the bank had to stand simultaneously the drain caused by unfavourable foreign ex-

^a Observations on the Establishment of the Bank of England and on the Paper Circulation of the Country (1797).

changes, and that originating in a desire to obtain guineas to hoard, through fear of invasion—a demand such as could be met by no stock of gold which the bank could possibly keep. Sir Francis Baring advised that the suspension should be continued while any dread of invasion existed, lest credit should be again subject to revulsion. He allowed that the value of the bank-notes depended upon their number, and he proposed that this number should be limited, to ensure them from a depreciation, a precaution which had been also suggested during the debates in the House of Commons on the Restriction Bill.

The price of many articles becoming very high shortly after the suspension of cash payments by the bank, people began to consider the two circumstances as connected. The amount of bank-notes issued was kept secret, but Mr. Boyd,* in 1801, attempted to prove the great probability of an increase of them sufficient to cause the rise in prices, he seemed to think that at all times prices depend upon the amount of bank-notes and specie, and that there could be

* Letter to the Right Honourable Mr. Pitt, on the Influence of the Stoppage of Issues of Specie at the Bank of England, and the Price of Provisions and other Commodities. By Walter Boyd, Esq., M.P.

no doubt that they depended upon the amount of the notes since the restriction, for these notes had become by that measure "the elementary means of circulation, communicating its influence to the whole paper circulation of the country, which turns round it as a common centre." Mr. Boyd apparently meant, that even allowing prices to depend upon the amount of the whole circulating medium, including in that term the bills of exchange as well as notes and coin, the extent of that circulating medium now depended upon the quantity of bank-notes, as it had formerly upon the quantity of gold in the country.

Mr. Boyd supported his opinion that the currency had been enlarged, by shewing that the market price of gold had been constantly above the mint price, and the exchanges permanently against this country, facts which he considered to indicate a depreciated currency, though he allows that both these circumstances may arise for a short period from other causes.

Shortly after the time at which Mr. Boyd wrote, it became known that the bank of England had increased its issues about three millions and a-half. Sir F. Baring, in some observations upon Mr. Boyd's pamphlet, points to this sum as a triumphant refutation of his arguments in con-

sequence of its complete insignificance. Sir F. Baring evidently did not consider notes as forming the basis, but merely a part of the whole system of paper credit, and his observation implies that he supposed prices to depend upon the amount of the whole of this mass of paper credit. This notion is still sometimes entertained, and it is argued, that no probable amount of gold from the new mines can bear such a proportion to the whole circulating medium, bills, notes, and coin, as to make any perceptible change in its value. It seems, however, quite clear, that if goods go into consumption by comparison with gold, their price must depend upon the quantity and value of gold, and that the amount of the bills of exchange, which circulate between the dealers, would be increased in proportion to any addition to the quantity of gold.

About the beginning of the century, we suffered from a succession of bad harvests, and the price of corn rose to a very high pitch, wheat reaching 156 shillings a quarter, and barley 90 shillings. These enormous prices must have stimulated our merchants to make large importations, and, in addition to these inducements, they were offered a bounty by the Government.* We

* Tooke, *History of Prices*, vol. i., p. 22.

may assume, then, that large importations were made; and we may perhaps assume, too, that they were paid for in gold, as payment in bullion is the usual mode of meeting large importations of corn; yet there does not seem to have been any difficulty in finding the means to make these purchases, notwithstanding that the bank no longer afforded a store of gold; nor is there any record of a peculiar pressure upon the mercantile classes, or an unusually high rate of interest in consequence of the withdrawal of so much capital in the shape of gold.

In 1802, Mr. Thornton, one of the bank directors, published his "Inquiry into the Nature and Effects of the Paper Credit of Great Britain," his object being, apparently, to shew that the bank directors were aware of the dangerous nature of the power with which they were entrusted, and that they would be careful not to abuse it. His work contains many important remarks upon the influence which the nature of the circulating medium exerts upon the mercantile and monetary transactions of a nation.

After shewing that credit forms no addition to the capital of the country, Mr. Thornton says that credit is the confidence which exists between merchants, and induces them to sell goods in

consideration of an equivalent promised at a future period. This commercial credit is the foundation of paper credit, paper serving to express that confidence which is in the mind. The multiplication of paper securities serves to enlarge, confirm, and diffuse that confidence among traders which in some measure existed independently of paper, and would, to a certain degree, remain were paper abolished. He states that the precious metals, when coined, are no longer to be considered as commodities, but merely as a measure of the value of other articles (he seems to think this view of the nature of money essential to the theory that prices depend upon the extent of the currency). He considers bills of exchange, promissory notes, and bank-notes, to be forms of paper credit, and that they came into use in the order above-mentioned as confidence increased amongst merchants. He maintains that bills of exchange circulate commodities like money ; but he allows that they effect fewer payments in the same time than bank-notes, because, as they bear interest, the holder has no special inducement to part with them ; they will, therefore, circulate more slowly, and a greater amount of them than of bank-notes will be required to give the same prices. He seems, indeed, to think that, while

bank-notes and bills circulate together, prices are regulated by the amount of the notes only.

Mr. Thornton is the first author who gives any hint that prices depend upon the state of credit; but he supposes that credit acts upon prices only through the circulation. He considers that prices depend upon the quantity of any medium for the time actually employed in circulating commodities, that whatever increases the reserve of notes or of guineas, which bankers keep by them, lowers prices, for it destroys the action of a part of the circulating medium, while a high state of confidence raises prices, because men keep less reserves, both bank of England notes and gold being hoarded only in times of distrust. The crisis of 1793 is an example of this. There were not at that time fewer bank-notes than usual in circulation, and as soon as confidence was restored by a loan of exchequer bills, that is, by a loan of Government credit, for the crisis was not relieved by a loan of money, the want of money was no longer felt.

It may strike the reader that, as Mr. Thornton considers the confidence which is in the mind to be the cause of sales, he should attribute the number of those sales and the state of prices to the extent of that mental confidence, and not to

the amount of the circulating medium for the time actively employed, which is a mere consequence of the existing state of confidence. It would seem to be more consistent with his views to suppose that, in times of distrust, it was the want of confidence, and not the diminution of the currency by hoarding, that caused low prices. We shall find the supporters of the Bank Act of 1844 adopting Mr. Thornton's views, and maintaining that the fall in prices, which has sometimes taken place during a commercial panic, without any previous reduction of bank of England notes, is, in reality, caused by a contraction of the currency, brought about by hoarding, while their opponents maintain that it arises only from the shock given to credit. The reader will observe that Mr. Thornton does not allow that the notes, when kept in reserve by bankers, have any effect on prices, at least in times of distrust.

Mr. Thornton says, a large issue of notes raises prices in the following manner :*—The traders in the metropolis find that there is an increased facility in obtaining notes for bills, this inclines them to enlarge their speculations; everybody becomes eager to buy and unwilling to sell, and

* P. 193.

thus prices may rise, though no large speculations exist, and the increase in the eagerness of each buyer may be trifling. When the number of notes is lessened, exactly opposite effects are produced. He refers, as a proof that prices depend upon the amount of the currency, to what took place with respect to Government securities at the time of the suspension of cash payments ; immediately before that event, the number of the notes had been diminished, and Government securities fell in price ; within a few days after the suspension, when the number of notes had been increased those securities rose again, though no event had occurred to increase the public confidence in the Government, but, on the contrary, the bank had confessed its inability any longer to pay in gold, which should have diminished public confidence in the national securities. We must remember, however, that if the Bank Restriction Act was a good measure under the peculiar circumstances of the times, it would increase public confidence.

When Mr. Thornton wrote, bank-notes were issued for one and two pounds, and no gold remained in circulation ; but it may, perhaps, occur to the reader to consider how far this process of raising prices, as described by Mr. Thornton, could go on, while the circulation between the

dealers and consumers was, as supposed by Dr. Smith, conducted by gold ; how far could the paper circulation, in the hands of the dealers only, be enlarged and affect prices ; would not a stop be put to the rise because the dealers would find the consumers unable to pay the enhanced price, their circulation not having been enlarged ; would not the rise in prices amongst the dealers be caused simply by speculation, and last for a short period only, the affair being an extension of credit and not of currency.

Mr. Thornton, in opposition to Dr. Smith, maintains that a currency of notes, convertible at will for gold, may be depreciated by too copious an issue below the value of a metallic currency, and that prices will be raised by such depreciation. It is, he maintains, this rise in prices, and not the filling of the channel of circulation, which turns the exchanges against us, raises the market price of gold above the mint price, and drives gold out of the country ; he says that it is not possible for the channel of circulation to become too full, as stated by Dr. Smith, every increase of paper enhances the price of goods of all kinds, which advanced price affords employment for a larger quantity of circulating medium,

so that the circulation can never be over full; but the advanced price of goods is the same thing as a reduced price of coin, and it is because coin has thus become cheap that it leaves the country in which the issue of notes has taken place, and goes to others in which there has been no such increase of the currency, and in which the coin, therefore, bears the same relation to commodities as before. Mr. Thornton maintains, however, that this cheapness of our coin may be occasioned by other causes than an increase of the currency—anything which gives rise to a balance of debt against us will produce it: he supposes, as an example, that the harvest has been bad, and that we have made unusually large importations of corn from Hamburgh, the exporters will draw bills on London and offer them for sale in their own country; the persons in Hamburgh who want to sell London bills for Hamburgh money will be more in number than those who wish to buy bills on London, or, in other words, to sell Hamburgh coin for London bills. The price of Hamburgh coin, therefore, rises as compared with English money which the bills represent; gold becomes dear in Hamburgh as valued in English money, gold, therefore, will be sent abroad, the foreign bullion

will be collected in the first place, and when that is exhausted, guineas will be melted down and exported.^a

Such a depreciation will be accompanied with a rise in the market price of gold, as well as with a fall of the exchanges; when the coin is thus rendered cheap, bullion is not rendered cheap too, coin is cheap because it is part of our circulating medium, the whole of which has been relatively depreciated; bullion is a commodity, and nothing but a commodity, and rises and falls in value on the same principle as all other commodities. In the case of an unfavourable exchange, we are to consider coin as falling below its proper worth, while bullion retains its accustomed price, and hence arises a difference between the mint and market price of gold.^b We shall find that Mr. Thornton is supposed to be in error here, and that it is said that no difference can arise between the mint and the market price of gold, while the notes are convertible for gold, but that all the bullion in the country is lowered in value by the same causes which lower the price of coin. This is a very important question, because, on late occasions, when the currency has

^a P. 123.

^b P. 202.

been said to be greatly depreciated, there has been no rise in the market price of gold, though the exchanges have been against us.

In another passage, Mr. Thornton says, a succession of bad harvests, or the necessity of making large payments abroad, as subsidies to foreign powers and the like, may give rise to a balance of debt against us, which must be discharged in gold. The fair statement of the case, he says, seems to be this ; at the time of a very unfavourable balance, produced through the failure of the harvest, the country has occasion for very large supplies of corn from abroad, but the goods which we have to export are not in such demand abroad as to afford even a tolerable price ; the country from which we import corn being, to a certain degree, eager for payment, but not in the immediate want of all that supply of goods which would be necessary to pay the balance, prefers gold, at least in part, for gold can always be turned to a more profitable use than a very great overplus of any other commodity.* Mr. Thornton is supposed here to mean that we have a debt to pay independently of all considerations as to the state of the currency, to discharge

* P. 131.

which we must send a part of our capital, and that gold is the cheapest and most convenient form in which that capital can be sent. Whether the exportation of gold, in the event of a bad harvest, is a payment of this kind, or a result of the state of our currency, is one of the disputed points in the currency question which will be repeatedly noticed.

Mr. Thornton allows that a reduction in the amount of bank-notes will facilitate the return of the gold which has been exported, because such a reduction will raise the value of our whole currency, and make our coin dear at home ; it will also lower prices, and induce our merchants to diminish their importations and foreigners to buy our goods, thus increasing our exports ; but he deprecates any great or sudden reduction of the notes ; he says, that as the greater part of the notes of the bank of England circulate in London, and a large portion of these are in the hands of the bankers, through whom all large payments are made, and who keep no more of them than experience, after all their endeavours to economise them, has shewn to be just sufficient, a very small reduction in the amount of the notes in circulation may produce very great results ; a diminution of one-third or two-fifths might,

perhaps, by checking the power of the bankers to assist their customers, be sufficient to produce a very general insolvency in London ; gold would in such a case be hoarded, and would not re-appear until confidence had been again restored by the previous introduction of paper of some kind. Such a crisis as this, however, could not be allowed to occur ; whether much or little gold were in the country, steps would be taken to induce the bank to issue its usual quantity of notes.* Mr. Thornton observed that there is no substitute for these notes so kept by the private bankers, and that they sustained and regulated the whole paper credit of the country. This, the reader will remember, was written during the suspension of cash payments ; but it would seem that the amount of these bank-notes would at all times have great influence on the state of credit.

In order to induce the country from which we have imported the corn to take all its payments in goods, the bank might have to reduce its issues so much as to produce a very great fall in prices, and trade and manufactures might be exceedingly depressed. Again, the favourable effect produced by the contraction of the bank issues on the ex-

* Such a crisis occurred in 1847.

changes is certainly not instantaneous, and they might rectify themselves in the ordinary course of trade before the reduction of the bank paper could have any effect. It might also be necessary for the contraction of the bank paper to be so large that it might, perhaps, annihilate the whole of the country bank paper (by destroying the credit of the bankers), and in that case the bank of England would have to supply gold for this paper, and thus a fresh demand for gold would be created. For these reasons, it may be the true policy of the bank to permit gold to leave the country for a time, and to a certain extent; and it must, in that case, increase its loans to the extent to which its gold is diminished. The bank ought to be provided with a fund of gold so ample as to be enabled to pursue this line of policy with safety to itself.

In another part of his work, Mr. Thornton maintains that, if bank-notes were abolished, other forms of credit would be substituted for them; bills of exchange, for instance, would be used, though, as they circulate more slowly than notes, a larger amount of them would be required. If this be so, it does not seem probable that the

merchants would allow the prices of all their goods to be altered in order to get the gold back immediately, and that the bank would be powerless to contract the currency unless she could impair the degree of credit and confidence existing at the time. This is another unsettled point in the currency question.

Mr. Thornton maintains that the country banks have no power over the extent of the currency. If the country banks enlarged their issues, prices would rise locally, and parties would buy in places where the rise had not taken place; to do which they would require the local paper to be exchanged for a paper of general currency, *i.e.*, for bank of England notes. However much the country banker might wish to enlarge his circulation, he would be restrained by being compelled to exchange so many of his notes as were excessive for bank of England paper.

He then examines some objections to the theory that prices depend upon the number of bank-notes. 1. It is said that the increase of bank paper is the effect, not the cause, of high prices. To enlarge bank of England notes merely in proportion as safe and real bills are offered for them, is only to exchange one species of paper for another; it simply affords a guarantee

to the transaction of the merchant. 2. The depreciation of the paper arises from a want of confidence in it, not from an extension of its quantity. The depreciation of assignats in France did not bear a proportion to the extension of their amount; in September, 1790, four hundred millions were in circulation, and the discount did not exceed six to ten per cent.; in May, 1791, after many more millions had been issued, the discount was only from seven to ten per cent., nor did prices rise. In England, too, the price of corn has never followed the changes in the amount of bank-notes in circulation. 3. Unfavourable exchanges arise only from an unfavourable balance of trade. The bank should, by a liberal emission of paper, encourage trade and manufactures, the only means of restoring a favourable balance. In answer to these objections, Mr. Thornton states that those who maintain them must shew that a very large creation of bank-notes—fifty millions, for example—will not produce the effect which he has mentioned, or that there is some smaller amount which will not produce these effects, and to which the issues of the bank naturally limit themselves (the point is, rather, can the bank issue the notes? not what their effect will be). He points out that assignats

were at first kept in hand, in hope of obtaining the land upon which they were issued ; that they were not, in fact, in circulation until their credit fell in this respect ; that bank of England notes have always been in credit ; that they even rose in value immediately after the suspension. That there can be only two modes of employing the increased paper, either in circulating a vast amount of articles which it must itself create, or in transferring the same articles at an increased price. Paper can cause the introduction of goods from abroad only to the extent to which it causes gold to be exported. How does it cause increased production at home ? The first persons who obtain a loan of the new notes will set labourers to work, but, as the number of idle labourers can be but few, they must take the greater part of the workmen from employments already in progress. The holders of the new paper acquire a power over a larger share of the existing capital of the country than they had before ; but the holders of the old paper must have a power over a smaller portion of that capital.

Mr. Thornton agrees with Mr. Hume, that while money is increasing the apparent success of every mercantile and manufacturing transaction gives spirit to new enterprise, that it is pro-

bable that prices increase faster than wages, and that thus some stock is created at the expense of the labourers ; but he maintains that the increase of commodities will not keep pace with that of the paper.

The objection that to exchange bank-notes for bills is only an exchange of existing credit, is answered by the fact that bank-notes are so much more efficient instruments of circulation that the change amounts to an extension of the circulating medium.

That the price of corn has not followed the variations in the number of bank-notes, arises from the fact that the directors of the bank of England have not extended their issues so far as to raise the price of articles sufficiently to overbalance the circumstances which ordinarily affect the price of corn. The increased issue of paper can have raised the prices of commodities above their bullion price only to the extent of the difference between the market price and the mint price of gold. Mr. Thornton calls the attention of his readers to the difference between the notes of the bank of England and the paper of the Government banks on the Continent ; he points out that many of its notes are issued on loan to merchants, and are continually returning

to it, and that even those which are lent to Government do not remain in permanent circulation, for the Government funds its liabilities from time to time, by means of new loans, and on these occasions, the notes which the Government had paid away return to the bank from the hands of those who subscribe to the loans. These circumstances delay the diffusion of an increased number of bank-notes, and, upon the whole, Mr. Thornton maintains that their number had not been at this time sufficiently increased to affect prices.

The subject of the depreciation of the currency was taken up the following year by Lord King, Sir Henry Parnell, Mr. Foster, and others, who called the public attention to what was occurring in Ireland, where the issues of notes had been increased, as we have seen, in a much greater degree than in this country. The exchange between Dublin and London had become unfavourable to Ireland to an unusual extent, and an exchange had sprung up between Dublin and Belfast, in which latter town guineas continued to circulate, as the people of the north of Ireland, being dissatisfied with the Government, refused to take the notes of the bank of Ireland. Guineas, too, were sold openly in Dublin at a premium,

and in a short time, the depreciation became so great, that even the worn Irish silver coin became more valuable than its estimated proportion of the depreciated notes; it disappeared from the circulation, and a new race of small bankers arose, who issued notes for shillings and sixpences. Many of these bankers were small tradesmen, who never troubled themselves to keep any reserve to ensure payment of their notes,* and are said to have sometimes offered to cash them with the goods in their shops; they were, in fact, mere coiners, who were saved the trouble and expense of false dies.

These occurrences in Ireland are very important; we shall find it argued that the exchanges were against us, and that the gold disappeared from England only because of a great demand for that metal for the Continent. Now this demand, if it existed, would not have affected Ireland to a greater degree than England. The apparently greater demand, therefore, which existed for gold in Ireland, must have been entirely due to the operations of the bank of Ireland, and it is a fair inference that the apparent demand for gold in England arose from the conduct of the bank of England.

* Foster, on Exchanges.

Mr. Foster mentions, that in 1753, long before the bank restriction, and while the notes were convertible for gold, an exchange of three per cent. had been established against Ireland in favour of England by too large issues of notes by the Dublin bankers, the consequence was, a large export of gold to England, and, in the succeeding year, the failure of the banks which had issued the paper, a reaction of the exchange in favour of Ireland, and an entire substitution of gold for paper.*

This instance, as given by Mr. Foster, apparently affords very strong evidence in favour of the power of bankers to extend a currency of convertible notes at will, for no mention is made of the prevalence of any speculative mania on this occasion amongst the people; but we must remember the account of these events is given by a person prejudiced in favour of a particular view, and, perhaps, not aware of the importance of stating all the circumstances of the case. It is not said that the extension of the currency by the bankers on this occasion was accompanied with a general rise in the prices of goods, and it is remarkable that no mention is made by these

* P. 175.

authors of any great rise in the price of commodities in Ireland at the time at which they wrote ; if the currency of that kingdom had really been more depreciated than that of England, the general rise in the price of commodities must, we should suppose, have been greater there than in England.

In 1804, the exchanges came again nearly to par, and the market price of gold fell to about £4 per ounce, in which state affairs remained for nearly five years. As there was no remarkable change in the currency to account for this event, the amount of notes of £5 and upwards in circulation being less than that in 1802, by about a million only, a reduction which seems far too small to have produced so marked an effect on the exchanges, it is inferred by Mr. Tooke and others, that the high prices which had occurred previously to this period were not caused by the issues of the bank, but arose from natural causes affecting the individual articles only. Mr. Tooke's opponents, however, would not admit this, we shall see they would account for this fall in the price of gold by the good harvests of the preceding three years, which had increased the amount of commodities to be circulated, thus reducing the redundancy of the currency. It

seems to be assumed that the place of the gold, as it continued to flow out of the country, was, at least, fully supplied by the issue of one and two-pound notes; if that had not been the case, then the continued efflux of gold would, of itself, have restored the equality between the mint and market price of that metal.

CHAPTER IV.

PERIOD OF INCONVERTIBLE BANK-NOTES
CONTINUED.

The Berlin and Milan Decrees.—Rapid Fall of the Exchanges in 1809, and Rise of the Price of Gold.—Mr. Ricardo's High Price of Bullion a Proof of the Depreciation of Bank-notes.—His View that neither a Bad Harvest nor a Foreign Subsidy causes Gold to be Exported unless the Currency be Redundant.—Importance and Difficulty of this Point.—Report of the Bullion Committee in 1810.—Mr. Huskisson's Pamphlet in Explanation of the Report.—His Opinion as to the Ruinous Consequences of a Continuous Depreciation of the Currency.—Attack upon the Bullion Report by Mr. Bosanquet.—His Reasons for supposing that the Bank cannot Increase its Issues at will.—Mr. Ricardo's Answer, and his Theory that an Increase of Convertible Notes depreciates the Value of Gold Bullion.—Arguments of Mr. Rose against the Existence of a Depreciation, and of Lord Castlereagh against the Policy of making our Currency vary with the Exchanges.—Rise of the Exchanges and Fall in the Price of Gold on the Conclusion of Peace.—Sudden Revulsion on the Escape of Napoleon from Elba.—Mr. Blake's Observations on these Facts.—Great Fall in the Price of Agricultural Produce in 1813 and following years.—Consequences of this Fall in Prices, and Theories deduced from them.—Bill of 1819

directing a Return to Cash Payments.—Small Extent of the Depreciation and Steadiness of the Currency during the Restriction.—Foreign Transactions conducted without a Store of Gold in the Bank.—Effect of the State of the Currency on the Working Classes.

ON the occupation of Hanover by the Prussians, in 1806, and the exclusion of British shipping and commodities from its ports, a notice was issued by our Government to neutral powers, stating that means had been taken to place the rivers Ems, Weser, Elbe, and Trave, the outlets of Prussian commerce, in a state of blockade, which blockade was soon afterwards extended to the whole coast, from the Elbe to Brest. In retaliation, Napoleon issued the celebrated Berlin and Milan decrees, declaring that all commerce with the British islands was interdicted, that all letters directed to England, or to an Englishman, should be seized; that every subject of England found in the countries occupied by his troops and those of his allies, should be made prisoner of war, and that all property belonging to English subjects should be good prize, and all English manufactures, to whomsoever they might belong, should be confiscated.

In consequence of these decrees, orders in council were issued by the British Government

prohibiting all trade from one port to another in the possession of France or her allies, or so far under her control that British vessels might not freely trade there,* and subjecting all the ports and places of France and her allies, or of any other country at war with England, and all other ports and places of Europe, from which the British flag was excluded, to the same restraint in point of trade as if actually blockaded.

An immediate consequence of these proceedings was a quarrel between England and the United States respecting the rights of neutral vessels, and all intercourse between those two countries ceased.

The writer of the historical division of the Annual Register for 1806, which was not published until 1808, states that the Berlin and Milan decrees soon became perfectly harmless and inoperative, that some slight and temporary embarrassments were experienced from them at first, but that in a short time their existence was known only by the bribes given to the generals of division and custom-house officers for omitting to enforce them. These decrees and our own

* Annual Register, 1807, p. 672.

orders in council were indeed systematically disregarded by the Governments which issued them; licences were granted by both parties for the transmission of goods between the forbidden ports, even corn was imported into England by permission purchased from Napoleon. The general result, however, of these measures and of the cessation of intercourse with America, was a great check to trade, and a change in its character and direction. Raw produce, and the materials of manufacture in this country, and on the Continent manufactured articles and colonial produce, rose very much in price. The expense of importing hemp, tallow, and timber was increased tenfold, the freight and insurance of these articles from the Baltic were from £20 to £30 per ton; raw silk was sent from Italy to England through Russia and Turkey, and was more than a year on the road, at the same time there was so great an accumulation of colonial produce in our warehouses, and on the Continent so great a scarcity of it, that the price of sugar was with us sixpence, and on the Continent from six to eight shillings a pound, and other articles of colonial produce in proportion.*

* Took's History of Prices, vol. i., p. 309.

Very shortly after these occurrences, in the beginning of 1809, the exchanges became suddenly very unfavourable to this country, and the market price of gold rose to £4 10s., and even to £4 13s. per ounce. The controversy on the state of the currency was immediately renewed, many pamphlets were written on the subject, and it attracted the attention of Parliament.

Mr. Ricardo commenced the second part of the discussion by his "High Price of Bullion a Proof of the Depreciation of Bank-notes." He maintained that the precious metals employed in circulating the commodities of the world have been divided in certain proportions among the different civilized nations of the earth, according to the state of their commerce and wealth, and, therefore, according to the number and frequency of the payments which they have to perform; that while so divided, the precious metals preserve everywhere the same value, and as each country has an equal necessity for the quantity of them actually in use, there can be no temptation offered to any for their exportation or importation.

If any nation increased in wealth as compared with others, a greater proportion of the money of the world would be allotted to it. If any nation

lost a part of its wealth, it could not retain the same quantity of the circulating medium that it before possessed ; a part would be exported and divided amongst the other nations of the world, till the usual proportion was established.

While the relative situation of countries continued unaltered, they might have abundant commerce with each other, but no money would pass, as it would have the same value in all countries, all transactions would be settled by bills of exchange.

If, under these circumstances, says Mr. Ricardo, a mine of gold were discovered in any country, the currency of that country would be lowered in value, goods would rise in price, and gold would flow from that country to the rest of the world. If, instead of the gold mine, a bank were established, whose notes fulfilled the office of gold, the circulating medium would, in like manner, be enlarged and lowered in value, goods would rise proportionately in price, and the equilibrium between that and other nations would have to be restored by the exportation of a part of the coin.

Mr. Ricardo maintains that gold is never exported except in cases where this equilibrium has been disturbed, and the currency of one

country become redundant as compared with that of some other. He rejects Mr. Thornton's suggestion that gold is exported in the event of a bad harvest because it is the most convenient form in which we can transfer the necessary amount of capital, and because other nations are unwilling to receive payment in commodities. He says, if we give coin in exchange for goods, it must be from choice, not necessity; we should not import more goods than we export, unless we had a redundancy of currency, which it therefore suits us to make a part of our exports. The exportation of coin arises from its cheapness, and is the cause, never (as Mr. Thornton supposes) the effect of an unfavourable balance. We should not export if we did not send it to a better market, or if we had any commodity which we could export more profitably; it is a salutary remedy for a redundant currency, and the demand for our coin abroad arises only from the comparative deficiency of the currency of the importing country, which there causes its superior value. (By a salutary remedy for a redundant currency Mr. Ricardo means that it would reduce our currency to its proper level.) Mr. Ricardo carries this theory so far as to maintain that even subsidies to foreign powers will not be paid in

specie, unless our currency be redundant as compared with that of the country to which the payment is to be made.

When our harvest is bad, Mr. Ricardo maintains that England is in the position of a country which has lost part of its wealth. The currency, which was before equal to her payments, would now become superabundant, prices would rise at home, and the currency would be cheap in proportion to that of other countries.

The reader will see that Mr. Ricardo is the originator of those views which we mentioned in our account of Dr. Smith's work, as being opposed to the opinions held by that writer. Mr. Ricardo considers all the bullion in the country to be money, and applicable for the purchase of commodities; he cannot allow that any portion of the precious metals possessed by the nation can be used, as Dr. Smith supposes, only for the purposes of international adjustment, without in any case affecting internal prices. There is, certainly, great force in Mr. Ricardo's argument, particularly if part of the bullion which Dr. Smith would consider set apart for international purposes should consist, as would now be the case, of the coin of the realm. Economists seem now to consider that the value of any article

depends upon the supply of it known to be capable of being brought to market, and that supply, in the case of money, appears to include the reserves which, though occasionally required for making foreign payments, are, for the time, not employed in performing that duty, but are lying idle in the hands of the merchant or banker. Mr. Ricardo seems, however, to have considerable difficulty to meet, when applying his theory to the case of a bad harvest. It has been found,* that when any article of vital importance, such as corn, becomes scarce, its value, when compared with other commodities, rises more than in proportion to the diminution of the quantity. We should, therefore, expect, that a larger quantity of a currency such as ours, consisting of pieces of bullion of full weight, would be required when our harvest is bad. Mr. Ricardo seems to get over this difficulty by supposing that even money of this kind is but a sign of value, and that the prices of commodities reckoned in such a currency, depend as completely upon the number of pieces, without any reference to their intrinsic value, as if those pieces were mere paper. It is only on this supposition that there appears any possibility of

* History of Prices, vol. i., p. 13.

considering that prices depend upon a comparison of the whole number of pieces with the whole of the commodities, and that a destruction of part of the commodities necessarily raises the price of the remainder. It is difficult to grant this supposition to Mr. Ricardo. The reader will remember, that at this time, when the currency consisted of inconvertible notes, the money of the country was undoubtedly a mere sign of value.

Mr. Ricardo shews that an increase in the quantity of money has no permanent effect upon the rate of interest, the absence of any such effect having been set up at this time, as a proof that the currency was not increased, he shews that the rate of interest depends upon the supply of loanable capital, materials, food for labourers, &c., in the market, and not upon the amount of the money in which they are valued; but he allows, that while money is increasing the rate of interest will be lowered; during the interval between the increase of money and the consequent rise in prices, there would be a sensible abundance of money, and the rate of interest would fall. Mr. Ricardo agrees with Mr. Thornton that the issues of the country bankers depend upon those of the bank of England, upon

the ground that if their issues were increased, their notes would become less valuable than bank of England notes, and would be exchanged for them.

In the next year, 1810, a committee of the House of Commons was appointed, on the motion of Mr. Horner, to inquire into the causes of the high price of gold bullion, and to take into consideration the state of the circulating medium. This committee is celebrated in the annals of the currency question as the bullion committee, and those who support its views as bullionists. It numbered amongst its members Mr. Horner, Mr. Thornton, and Mr. Huskisson.

The committee addressed their inquiries, in the first place, to the opinion then prevalent that the high price of gold arose from the scarcity of it, caused by an unusual demand upon the continent of Europe for the payment of the armies and for the purpose of hoarding. They stated that there did not appear to be, in reality, any rise in the price of gold on the continent, commodities were no cheaper there, and in those countries where the measure of value was silver, and gold only a commodity, its price was not raised. The great supply of gold which had been sent to the continent from this country

must, they alleged, have satisfied the demand for the armies. They maintained that there was no evidence of a scarcity of gold bullion even in this country, though the coin had disappeared; and they referred to the experience of former wars, during which there had been no suspension of cash payments and no scarcity of gold, and they stated that silver had risen in price in proportion to the gold, though no scarcity of that metal was alleged; they therefore inferred that gold had disappeared from our currency because of large issues of notes by the bank.

Whether gold left the country at this time because it was rendered cheap by the issue of bank-notes, or because there existed a great demand for it abroad, is a very important question, as it is now alleged, in like manner, that silver leaves Europe because there is a great demand for it in China and India, and not because it has been rendered cheap by a fall in the value of the gold coin, for which it can be procured in exchange. It is, however, evidently very difficult to ascertain whether gold was unusually dear on the continent at this epoch. Many causes, in such disturbed times, would influence the price of commodities. The comparison with silver is not to be depended upon as a proof that there was no such increase

of price, because the same causes which created a demand for gold would, to a considerable extent, influence silver ; nor is the fact that in former wars there was no such demand for gold abroad conclusive, for there never had been a time at which the hoarding of gold on the continent was likely to have been carried on to the same extent as at this time. On the other hand, there is no evidence to shew that a scarcity of gold was felt in Europe ; prices were not unusually low on the continent. It is inconceivable, too, that any demand for the continent could have so completely stripped us of our gold coin unless the state of the currency had facilitated the process.

Most of the witnesses examined before this committee attributed the great fall in the exchanges which had recently occurred, to the disturbance of the usual commercial relations of this country with the continent in consequence of the Berlin and Milan decrees. The committee allowed that this might have been the original cause of the fall of the exchanges ; but they maintained that the extension of the currency by the bank was the reason why there had not been the usual recovery from such a fall. Before the restriction on cash payments the exchanges, they say, would have been restored by the transmission of guineas,

which would have caused a contraction of the circulation, and consequent fall in prices. The continuance of the low rate of exchange and the high market price of gold, taken together, they considered an infallible sign of a depreciated currency.

The bank directors, and some of the merchants examined before this committee, stated that, in their opinion, there could not be an excess in the issue of bank paper so long as it was issued on the discount of good bills, growing out of real commercial transactions, and having but short periods to run. The bank-notes, say the directors, will return if not required, because no one will pay interest for them if he do not want to make use of them.* The committee dissent from this position if the notes be inconvertible ; but they agree with Dr. Smith, that if the notes be convertible at will for gold, the bank directors cannot produce much excess in the circulation without having their notes returned upon them for specie. When notes are issued in discount of a bill, the operation is, at first, an advance of so much capital ; but so soon as the notes are exchanged for goods, they fall into the channel

* P. 33.

of circulation, and form so much circulating medium, and are an addition to the mass of the currency, any given portion of which is depreciated as compared with commodities. If the addition were made by notes convertible into specie, this diminution of the relative value of any given portion of the whole mass would speedily bring back upon the bank which issued the notes as much as was excessive (the committee do not say why the notes would come back, but they evidently seem to think they would return before they affected prices); but if the notes are not convertible, they will remain in circulation until the bill is paid. In the meantime, they perform the functions of currency, and before they come to be paid in they have been followed by a new issue of notes in a similar operation of discounting. Each successive advance repeats the same process. If the amount of discounts is progressively increasing, the amount of paper which remains out in circulation over and above what is otherwise wanted for the occasions of the public, will progressively increase also, and the money prices of commodities will progressively rise.

The committee allowed that there had not

been a very accurate correspondence between the amount of bank of England notes and the state of the Hamburgh exchange during several years, but they maintained that even a greater discrepancy would not have given them any distrust in the general principles which they had stated. They adopted Mr. Thornton's theory, to account for occasional fluctuations in prices of a general character, while the issues of the bank had appeared to be unchanged, namely, that, on those occasions, the currency had been rendered more or less efficient in consequence of the greater or less confidence that existed at the time.

There is nothing in the report of the committee confirmatory of Mr. Ricardo's view, that bullion can never be exported except when the currency is depreciated ; on the contrary, they allow that circumstances totally unconnected with the state of the currency will cause an exportation of the precious metals, but this will not continue for any length of time unless the currency is depreciated.

The committee elicited from the bank directors that they had not been in the habit of attending to the state of the foreign exchanges or the price

of gold, in regulating the issue of their notes. The directors stated that their principle was to look to the amount already advanced to the individuals asking discount, to the solidity of the paper, and the appearances of its being wanted for commercial purposes.

The committee reported in favour of resuming cash payments.

Shortly after the publication of the bullion report, Mr. Huskisson wrote a pamphlet on the subject of the supposed depreciation of bank-notes, which is remarkable as shewing the injurious effects which that eminent statesman supposed that a progressive fall in the value of money would produce upon the national prosperity. He says, to lower the standard of the currency by an act of the state, though practised in less enlightened periods, is now justly reprobated and condemned, as too disgraceful in its principle and too ruinous in its policy to be resorted to, even by governments the most arbitrary in their internal administration and the most destitute of more substantial resources. Yet this injury once done, the extent of the evil would be known; prices at home and abroad once accommodated to the change in the value of our currency, all uncertainty and consequent speculation upon a further

disarrangement would cease. Creditors, annuitants, and all who possessed incomes fixed in amount by a contract of any description, would be able to measure the extent of their loss. All future leases and bargains for time, would be made with a reference to this definite alteration in the common measure of all exchangeable commodities. The existing evil (meaning the depreciation of bank-notes) is indefinite, uncertain, and fluctuating, though progressive in its growth (like the depreciation of money threatened by the new gold); it has, consequently, a greater tendency to discourage and unsettle all the transactions of society, and to depress the labouring classes, and all who derive their incomes from salaries or wages of any description. It increases the expenses of Government, and adds to the amount of the annual loans and taxes; a saving, it is true, accrues to the state from paying the wages of valour, talent, industry, and labour, in a depreciated currency, and from the reduction which is thus made in the value of the dividend paid to the public creditors; but these savings to the state are more than counter-balanced by its increased expenditure, and the increased taxation necessarily consequent upon it doubly aggravates the evil on those classes of the

community at whose expense these savings are made, by taking from them a large proportion of their already depreciated incomes for the payment of all the other charges of the state. Mr. Huskisson denies that the landed or mercantile interest will be benefited by the continuance of the depreciation; the landholders, whose lands were in lease, would be direct losers, and a check would be given to the granting of leases which would prevent the improvement of their estates, nor could the increased rent which they received be a real gain, for it would not be exchangeable for more commodities than they would have before received. As to the commercial class, some have, no doubt, obtained more easily credit upon the discount of mercantile securities; but it is a doubtful question whether the mercantile body of the country, considered in the aggregate, has reaped any substantial advantage from the superabundance of paper. The mercantile and manufacturing classes, he admits, are not necessarily exposed to the same injury as is cast upon the other classes of the community; but let them remember all the ties with which they are connected with those classes, and that the durable prosperity of the one cannot be built upon the distress of the other.

With reference to the high price of gold on the continent, Mr. Huskisson treats the fact that the price of commodities had not fallen on the continent as incontestible.

The bullion report was immediately attacked by two classes of opponents, first, by the disciples of Law, who were far from being extinct in England, and who considered an abundance of money of any kind the great source of national prosperity, and, secondly, by those who denied the existence of any increase of the circulating medium, and the correctness of the statements and reasonings of the committee; of these latter opponents, Mr. Bosanquet, one of the directors of the bank of England, was the most able, he endeavoured, in his "Practical Observations on the Report of the Bullion Committee," to shew that the theory contained in that report was not borne out by the facts of the case. Mr. Bosanquet was followed, step by step, by Mr. Ricardo, in his "Reply to the Practical Observations on the Report of the Bullion Committee." We can notice but one or two of their arguments.

Mr. Bosanquet said that the bank could not increase its issues beyond the legitimate demands of trade, because merchants never come to the bank of England for discount until money is so

scarce that they cannot get it elsewhere. As soon as the amount of notes in the hands of the public exceeds their ordinary wants, they employ them, not in purchasing commodities, but in discounting the best bills. The demand for notes at the bank then ceases, for these bills are no longer taken to the bank of England for discount, and the payment to the bank of the bills already discounted by it causes its notes to return to it, and thus their number is diminished. Upon this Mr. Ricardo observed that the excess of notes immediately begins to cause a depreciation of the currency and a rise in prices, which, by extending the nominal amount of all transactions, gives rise to a demand for nominally higher discounts, requiring a larger issue of notes. He says: Let it be supposed that a bank of undoubted credit is established in a country whose circulation is wholly metallic, let such a bank discount bills with its notes and make advances to Government. According to Mr. Bosanquet, their notes ought immediately to return to them as soon as issued, because the circulation being already sufficient for the commerce of the country, no additional currency could be employed. If the principle advanced on behalf of the bank were true, not a note could have been kept in

circulation before the restriction, nor would the discovery of the mines of America have added one guinea to the circulation of England. The additional gold would, according to this system, have found a circulation already adequate, and in which no more could be admitted.

In estimating the force of this argument, the reader must remember that the notes took the place of the gold because there was another employment ready for the displaced gold, and that the interest of the issuers of the notes and of the public combined to incline all parties to direct the gold to this new employment, and to use notes in its place. If the currency consisted of inconvertible paper, this inducement to make use of new issues of notes would not exist.

In this answer to Mr. Bosanquet, Mr. Ricardo* maintains a theory which is of great importance in the question whether a currency of notes convertible for gold can be depreciated. We have seen that Mr. Thornton supposed that such depreciation would be shewn by a rise in the market price of gold. The same view was entertained by other writers at this time. Mr. Blake, in his essay on exchanges, says : When the currency is

* Political Works, p. 337.

extended by an issue of paper, an ounce of gold rises in value in the market ; but in the currency it cannot rise above the mint price ; it cannot legally be tendered in payment for more than £3 17s. 10½d. A profit will arise from converting coin into bullion, and it will be melted. It is from this cause, and not because there is a demand for gold abroad, that coin is taken out of the circulation. An exportation of bullion frequently follows this melting, because the amount of bullion here is increased in proportion to that of other countries, and its price is lower here. According to these views, the absence of any difference between the mint and market price of gold, and such difference has not been known to exist while the notes were convertible, should prove that such a currency cannot be depreciated. Mr. Ricardo, however, says that, in our currency, coin and bullion are identical, because coin can be converted into bullion and bullion into coin at will ; whatever, therefore, makes coin cheap will make bullion cheap also ; and how much soever the currency may be increased, bullion will fall in price along with it. We shall find great reliance placed upon this very subtle argument by those of Mr. Ricardo's disciples who support the Bank Act of 1844.

Mr. Ricardo observes, the value of the gold currency formerly regulated the value of the pound sterling all over England. If gold had become more abundant from the discovery of new mines, and more money had been employed in London, a proportionate increase must have taken place in the country, to preserve equality of prices. Bank-notes then performed the office of gold, and if they were increased, the country banks must have made use of a proportionally larger number of them, or must have increased their own issues.

In this pamphlet Mr. Bosanquet certainly failed to shew that it was impossible to increase a currency by the issue of inconvertible notes. In a second edition, he even acknowledged that the gold contained in a guinea was, at that time, of more value than twenty-one fortieths of a two-pound note, and that, in fact, gold was no longer the standard of value. He allowed that, under these circumstances, it was not easy to say what was the standard of value ; and he proposed that the interest of £33. 6s. 8d. Three per Cent. Stock should be considered as the standard pound—a ridiculous proposal, for what was to measure the £33. 6s. 8d. but allowing that bank-notes were no longer equivalent to the gold they repre-

sented. Mr. Bosanquet denied, with more success, that the currency had been increased by the bank of England ; that it was depreciated in the ordinary sense of the word, that is, was of less value than formerly when compared with commodities ; it was the gold that had become scarce. This is a most important phase of the question, to which we shall soon recur.

About this time there occurred a great amount of commercial distress, and many failures took place ; these events may readily be accounted for, not only by the check which had been given to trade by the measures of Napoleon, but by the rash speculation which had taken place on the opening of the market of Brazil about this time ; they were, however, sometimes attributed to the fear of a contraction of the currency in the event of the adoption of the bullion report. The distress on this occasion was not of long continuance.

In the following year, 1811, Mr. Horner moved a series of resolutions, founded upon the report of the bullion committee, to the effect that bank-notes were depreciated as compared with coin, that the depreciation was caused by the excessive issue of the bank of England, that the exchanges were unfavourable in consequence of the depreciation of the currency ; that it was the duty of

the directors of the bank of England to look to the state of the foreign exchanges as well as the price of bullion, with a view to regulate the amount of their issues, concluding with a proposal to resume cash payments in two years.

Mr. Horner's resolutions were supported by arguments so similar to those which we have already examined, that it is unnecessary to repeat them; we shall refer only to one passage in the speech of Mr. Thornton, the author of the work on paper credit. Mr. Thornton insisted upon the gradual and continual rise which it was allowed had taken place in property of all kinds, whether land, houses, shops, or commodities, as strong evidence of a depreciation in the value of money, arising from its existence in greater quantity than before the restriction on cash payments.

Those members who took the opposite side of the question were obliged to acknowledge that bank of England notes were no longer equivalent to coin, and they were driven to definitions of the existing standard even more absurd than that of Mr. Bosanquet. Lord Castlereagh described it as a "sense of value in reference to currency as compared with commodities." They rested their opposition to the bullionists upon two most important grounds—(1) that though bank of

England notes might be depreciated, as compared with gold, the amount of the currency had not been increased, and that therefore the high prices of commodities could not be a consequence of the Bank Restriction Act; and (2) that to make our currency dependent on the foreign exchanges at a time when they were subject to such very great fluctuations, far from rendering our standard of value steady, would have the effect of making it to the last degree uncertain.

Mr. Rose observed in support of the first of these points, that since the suspension of cash payments there had been a very great increase in the amount of commodities to be circulated, requiring an increase of currency, instead of which he affirmed that the currency was not then so large as it had been in 1798; he estimated the amount of guineas in circulation in 1798 at 35 millions, and the amount of them in circulation in 1811 as not more than three millions. To so great an extent had gold disappeared from the currency, that in Mr. Rose's county out of £426,000 collected in taxes, only £476. 8s. were paid in specie. The bank of England notes amounted in 1798 to 11,278,000, and in 1811 to 23 millions; thus the total currency in 1798

amounted to 46,278,000, and in 1811 to 26 millions only, making the currency in 1811 less than that in 1798 by 20 millions. (There is no doubt that Mr. Rose's estimate of the guineas in circulation in 1798 is far too high. Mr. Tooke,* from a comparison of many estimates by various persons, supposes the amount of guineas before the suspension to have been about 22 millions and a half only, this would still leave an excess of 13 and a half millions in favour of the currency of 1798, but Mr. Rose neglects the country bank-notes on both occasions. The amount of country notes in 1811 was about 21 millions, the amount of country bank-notes in 1798 is nowhere stated, but it must have been much less than 11 millions, as no one-pound notes were then issued by the country bankers; if we take it at five millions, a probable amount, we shall have the currency in 1811 exceeding that of 1798 only by three millions, no large amount considering the great increase of commodities to be circulated and the great increase from natural causes of the prices of many articles.)

As to the general rise in the price of all articles mentioned by Mr. Thornton, Mr. Rose stated

* Tooke's History of Prices, vol. i., p. 131.

that he had ascertained that the price of commodities had gradually increased in France since the commencement of the war, as it had done in this country, and he quoted a statement contained in a report of the Agricultural Society of Paris in 1805, that in most of the departments the price of labour was increased since 1789 by one-third, while in a few it was doubled, that all the instruments of cultivation were raised in proportion, building materials from a third to a fourth, beasts of labour about one-half, and all the articles requisite for the maintenance of the farmer's family in the same proportion; he mentioned also that M. Daru,* in a speech to the Legislative Assembly in January, 1810, observed that the revenue appointed to Louis the Sixteenth, and afterwards continued to Napoleon, was no doubt very considerable, but that if attention were paid to the real value of money at that time and at present, it would not be thought an extravagant assertion that the same income did not at the time at which he was speaking represent more than two-thirds of what it had done in the time of Louis the Sixteenth.

With regard to the second point, Lord Castle-

* Tooke, vol. i., p. 336.

reagh observed, "To what an extent of mischief must it not lead, so long as the foreign exchanges, and with them the price of the precious metals, are convulsed by the violence of the enemy, should the scale of value within the country be made to undergo similar variations. The value of property would become so uncertain, that no man could judge one day what he would be worth the next. The quantity of circulating medium must be so enormously and so rapidly reduced as to throw everything into confusion, yet such must have been the result had the Bank Restriction Bill not been passed. Why," he asks, "should we throw away the benefit experienced under that bill, by voluntarily inflicting on ourselves the mischiefs it was intended to obviate?"

It seems to have been supposed at this time that the suspension of cash payments facilitated the raising of the public loans. Mr. Horner's motion was treated as an attempt to embarrass the Government, the affair became a party question, his resolutions were rejected, and others, opposed both to the facts advanced by the bullionists and to the inferences drawn from them, and including a distinct declaration that bank of England notes were at that time equivalent in value to the legal coin of the realm, were proposed by Mr. Van-

sittart, supported by the Government, and carried by a large majority.

We have seen that the act of Parliament by which cash payments were suspended, did not make bank-notes a legal tender, but merely prohibited the bank from paying them in gold, declared they should be received in payment of taxes, and protected persons offering them in payment from arrest. On one occasion since the passing of the act, payment of a country bank-note had been demanded in gold, and it was held by the Judges that the demand could not be resisted. About this time the fall in the value of the notes became too apparent to be overlooked, and further alterations in the law became necessary. A person named De Yonge was prosecuted for buying guineas, but acquitted on the ground that bank-notes were not coin. Lord King also gave notice to those of his tenants whose leases were prior in date to the suspension, that he should demand their rents in gold. Under these circumstances, Lord Stanhope brought in a bill making it illegal to give more money for guineas than their lawful value, or to take bank-notes at a value less than they purported to be equal to, and making bank-notes a legal tender in the case

of a distress for rent ; this act was to be in force only until 1812. The bill passed after much discussion, and was afterwards continued and extended to Ireland, the general opinion being that however objectionable the act might be in principle, it was necessary under the circumstances. The reader will observe, that even now bank of England notes were not expressly made a legal tender, so reluctant were the Government to allow that they were depreciated, or that force was requisite to compel the public to take them.

In 1813, the Dutch ports were opened, on the approach of the termination of the long struggle with France, and the harvest being good, there occurred a great fall in the price of corn, and numerous bankruptcies took place amongst the country bankers. These events were attributed by those economists who consider that all variations of price are caused by changes in the currency, sometimes to the preparations made by the bank of England to resume cash payments, which compelled the country bankers to reduce their issues, and sometimes to the repayment of a large portion of the debt due from Government to the bank, by which means a part of the bank-notes which had been employed in payment of wages

and the like, was taken from that employment and lent to merchants, in whose hands they were not considered so efficient in supporting prices.

Mr. Tooke, however, in his *History of Prices*, maintains that prices began to fall before any reduction took place in the issues of the country banks, that so far from the bank of England having contracted its issues in preparation for a return to cash payments, these issues were actually enlarged at this time ; and that during earlier periods of the restriction on cash payments, very large reductions of the advances to Government had not lowered prices, but, on the contrary, had sometimes happened to coincide, in point of time, with a very great rise in prices ; and that, in fact, the greatest increase of advances by the bank to the Government was coincident with the fall of prices in 1813 and 1814.* Mr. Tooke infers from these facts that prices fell on this occasion from causes independent of the currency. The economists of Mr. Ricardo's school agree with Mr. Tooke, so far as to allow that the fall in the price of corn on this occasion arose from the abundant harvest and the opening of the ports, circumstances which increased the supply of com-

* *History of Prices*, vol. ii., p. 42.

modities to be circulated, while the extent of the currency remained, for the time, the same as before. But this fall in the price of corn, they say, ruined some of the farmers, who, in their turn, ruined some of the bankers, and threw discredit on the whole of them ; in the crash which followed, a great amount of country paper was destroyed, and the whole currency of the country diminished, notwithstanding the increase of bank of England notes, and to this diminution of the currency they attribute the general fall of prices and the reduction of the market price of gold nearly to its mint price which shortly afterwards took place, circumstances which could not, according to their theory, have occurred while the amount of the currency continued unchanged. The only difficulty which we have in accepting this view is, that as the restriction on cash payments continued for a considerable time after these events, there seems no reason why the country bankers should not have recovered themselves and again restored the high prices, if those prices depended upon the extent of their issues.

On the conclusion of peace with France, in 1814, the market price of gold was five guineas per ounce ; by March, 1815, it had fallen to £4. 9s. ; but on the arrival of the news of Napo-

leon's landing in France from Elba, it rapidly rose again to five guineas per ounce, and the exchange fell at once ten per cent. This state of affairs continued during the hundred days of Napoleon's power. After the battle of Waterloo, the price of gold fell back proportionately; and in the course of the following year it was £3 18s. 6d. per ounce. During the whole of this period there was but little variation in the numerical amount of the notes.^a Mr. Blake, whose opinion in favour of the existence of a difference between the mint and market price of gold whenever the currency is depreciated, we have noticed, and who was at that time a firm supporter of the views of the bullion committee, changed his opinion in consequence of these events. He was satisfied that, in this case,^b the gold was raised for the time by the demand above the level of the currency, and afterwards fell back to it; and if in this case, why not in others that occurred previously, when the same disturbing forces were in action?

It is, no doubt, impossible to account for the sudden rise in the price of gold on this occasion,

^a Tooke, vol. ii., p. 33.

^b Blake, *Observations on the Expenditure of Government*, &c., p. 21.

on any supposition connected with the state of the currency ; but it does not follow that it was caused by a demand for gold at the time ; it might probably have been caused by the mere anticipation of a return to that state of affairs in which gold had been worth five guineas an ounce. The rise and the fall in the price of gold seem too sudden to have been caused either by the state of the currency or, as Mr. Blake supposes, by a real demand.

In 1817, the issues of the bank of England reached the highest amount which they attained during the restriction. The market price of gold, however, remained but little above the mint price ; so little, indeed, that the bank directors undertook, by public notice, to pay their notes in gold, and issued, in consequence, above five millions before they found that it would not remain in circulation.*

About this time Mr. Ricardo, in his "Principles of Political Economy and Taxation," gave a further development to his theory of the distribution of money between different countries. He stated that the commodities of two countries will interchange with each other by barter in certain

* History of Prices, vol. ii., p. 57.

proportions, according to the facilities which each country possesses for their production ; that the prices of these commodities in each country, to which prices alone merchants look, must be such that they may be exported and imported in these proportions ; and that the extent of the currency of each country must be such as will give these prices. Whenever, therefore, prices are above this level in either country, money must leave it, and must come to it when they are below the proper limit. This theory, to which it is difficult to find an objection, is evidently quite inconsistent with Dr. Smith's opinion as to the existence of unemployed reserves which do not affect prices, and of a fund of bullion set apart solely for the adjustment of national balances, and forming no part of the internal circulation.

At length, in the year 1819, the act of Parliament* familiarly known as Peel's Bill was passed, by which the bank was directed to resume cash payments in May, 1823. At this time the market price of gold was about £4 1s. per ounce, about three or four per cent. above its mint price. By this act the melting down and exportation of coin was permitted, and our coin-

* 59 Geo. III., c. 49.

age thus rendered as nearly as possible identical with pieces of bullion. As the act restraining the issue of notes of less than £5 had been suspended until two years after the expiration of the Bank Restriction Act, the issue of those notes would cease in 1825. The bank directors found no occasion to avail themselves of the whole of the delay allowed by the act. They resumed cash payments in 1821, and ceased, after that time, to issue notes for less than £5. Up to this time they adhered to the opinions which they had expressed in 1810, and they now passed a resolution formally denying that the bank could obtain a favourable turn of the exchanges and an influx of gold by reducing its issues.*

When cash payments were resumed, the average amount of the notes of the bank of England above £5 was about seventeen millions, and of the notes under £5 between seven and eight millions. Those small notes were replaced, in the next two years, by nearly twelve millions of sovereigns; and the amount of the notes above £5, though somewhat less than at the time of the resumption, was not diminished to the extent to

* Appendix to the Report of the Committee of 1819, and quoted in Lord Overstone's Remarks.

which the amount of the sovereigns exceeded that of the small notes,* some few of which remained in circulation. So far as the bank of England was concerned, there appears to have been no diminution of the currency, and there seems to have been no reason to suppose that, at this time, any further diminution took place in the notes of the country banks.

The evidence taken before the committee of the House of Lords on this occasion, affords an example of the tenacity with which the people of this country, in spite of all the efforts of the economists, cling to the idea that credit is directly productive of wealth, and that it is encouraged by an abundance of the currency. Mr. Ricardo was asked, may not a man get credit from a bank on the security of his capital which is profitably employed, whether vested in stock or in land; and may he not, by means of that credit, purchase or create an additional quantity of machinery and raw materials, and pay an additional number of labourers, without dislodging capital from any existing employment in the country? He answered, impossible! An individual can purchase machinery, materials, &c.,

* Appendix to the Bank Charter Report in 1832, p. 80.

with credit, he can never create them ; if he purchase, it is always of some one else, and, consequently, he displaces some other from the employment of capital. In answer to another question, Mr. Ricardo observed, I have no notion of credit being at all effectual in the production of commodities—commodities can be produced only by labour, machinery, and raw materials, and if these are to be employed in one place, they must necessarily be withdrawn from another. Credit is the means which is alternately transferred from one to another to make use of capital actually existing ; it does not create capital, it only determines by whom that capital shall be employed.* The reader will observe, that Mr. Ricardo does not allow that capital may be lying idle and may be set in motion by credit. We shall see that the notion that credit may be extended by increasing the currency, and that the result is an increase in the production of wealth, still has a strong hold upon public opinion.

What opinion are we to form as to the real state of the currency during the war ? In what sense and to what extent was it depreciated, and

* Quoted by Mr. Macculloch (*Economy*, p. 128) from the Lords' Report.

was it possible or politic to continue to pay in cash ?

There seems to be no doubt of the correctness of the theory of the bullionists, what they believed to have occurred might have happened. The experience of every nation which has tried a paper currency not convertible for gold, proves that paper money, if issued in excess, loses its value, gold rises in price, and the exchanges become unfavourable. Our bank-notes had become to a great extent mere paper money, they might have been issued in excess, and it is clear that they were no longer of equal value with the gold which they represented. But we have seen a depreciation of the currency may mean two things, either that money is more abundant and less valuable, as compared with commodities in general, than it used to be ; or that it is less valuable as compared with the gold which it represents, without any reference to the value of commodities. The currency may have been increased beyond its usual extent by the issue of notes, or the notes may have merely kept up the currency to its usual amount by supplying the place of the gold which has become scarce. This distinction is very important ; if the bank-notes existed only to the amount to which a mixed cur-

rency of gold and notes, such as we had before the suspension, would have existed for the time being under the circumstances, had gold not become scarce, the return to cash payments, in 1819, could not have affected prices in any way. Gold would have come out of the hoards and taken the place of the notes, as in 1797 the notes had taken the place of gold, and no difference would, on either occasion, have been made in prices or in contracts.

The phenomena upon which the bullionists founded their theory would still have occurred—the market price of gold would still have exceeded its mint price, and the exchanges would have been against us, for if a portion of all the gold in the world were destroyed, or, what is the same thing for currency purposes, concealed, the gold which remained in circulation would rise in value as compared with commodities, unless the amount of them was similarly reduced. The currency of all those countries which retained a gold circulation would be reduced, and prices would fall. Now, if we had adopted a paper currency, which had just supplied the place of the currency partly gold and partly paper, which we had before the destruction of gold, a pound sterling of our money would continue to represent a certain portion of

the original quantity of gold, while the continental coins which used to be equivalent to our pound sterling, would now represent a portion of the reduced and more valuable gold, and would be more than equivalent to our pound sterling, which would be represented by a smaller portion of the foreign gold, the exchanges would turn against us, and the market price of gold here would rise above the mint price, the market price being reckoned in a currency of the value of the original gold, and the mint price, or the number of coins made out of a given quantity of metal at the time, being evidently reckoned in the reduced gold.

It must be allowed that an extensive hoarding of gold was probable at this time. We know that for long after the conclusion of peace large quantities of guineas continued to be brought to the bank of England, and the inducements to hoarding on the continent were far greater than in this country. There certainly are, then, circumstances which afford a probable explanation of the phenomena without reference to an extension of the currency, and we must therefore allow great weight to the evidence offered by Mr. Rose to shew that there really was no such extension. The imprudence of the bankers in 1815 and 1816

may have accelerated the equalization between the mint and market price of gold ; but even if the bankers had been able to reduce their issues in proportion to the lower prices of corn, a reduction which would have been no diminution of the currency as compared with commodities, it seems probable that the gold would soon have fallen nearly to the mint price.

Mr. Thornton's statement, indeed, that the price of all kinds of property had steadily risen in this country since the commencement of the war, seems, at first glance, conclusive in favour of a continual increase in the currency. But we find that prices rose equally on the continent, where there was no suspicion of any increase of the currency. This important fact, stated by Mr. Rose, and confirmed by M. Say in his "*Cours Complet d'Economie Politique*,"* is very difficult of explanation. It seems to shew that our currency had not necessarily been increased, since prices had risen in other countries, where no increase of currency was supposed to have occurred. But what, then, caused the universal rise of prices? All economists agree that a general rise of prices cannot take place without an increase in the pro-

* Vol. ii., p. 433, edition Guillaumin.

portion of the currency to the commodities to be circulated by it. Is it possible that the production of commodities abroad had been so diminished that the precious metals bore a less relative value to them? At this time, with an increasing industry and an increasing population—as was the case with France, at least—this supposition is hardly possible. Had the precious metals actually increased in France faster than commodities? This supposition seems equally inadmissible. There must, then, have been some change in progress, rendering these metals more effective in circulating property, perhaps by supporting a larger and a larger amount of credit. If this change were in progress at this time in France, it must have been so, at least to an equal extent, in this country, and will account for a considerable portion, at least, of the rise in prices, without requiring the supposition of an increase in the number of bank-notes beyond the amount of a gold currency in ordinary times.

Unless we can place implicit faith in the theory of Mr. Ricardo, that gold never leaves the country except when the currency is redundant, we must also allow great weight to the observation which we have quoted from the speech of Lord Castlereagh, upon the evils which might have re-

sulted from a currency fluctuating as rapidly and as violently as the foreign exchanges. It does not seem to have been possible for the bank by any contraction of the currency to have prevented these adverse exchanges. Mr. Tooke says that the price of sugar here was 4d. per pound, and on the continent it was 4s. or 5s. Could the bank, by any restriction of the currency, have so increased this difference of price as to have compelled the exportation of sugar instead of bullion? It is clear that the continent must have been effectually shut against us, or the difference between 4d. and 4s. would have caused exportation. It seems clear, too, that Napoleon's measures did affect the exchanges to such an extent, that a currency which followed them, had that been possible, would have lost all claim to be a standard of value by which men could regulate their transactions.

Upon the whole, perhaps, we shall not err if we decide that there is not evidence sufficient to prove that the currency was seriously extended during the restriction upon cash payments, nor, on the other hand, to shew that it was not extended at all. The system pursued by the bank directors in conducting their discounts, giving an opportunity for the return of the notes in the manner mentioned by Mr. Bosanquet, and the

frequent repayments out of the produce of the repeated loans of the advances made by the bank to the Government, which, in like manner, caused a return of notes to the bank, seem to have enabled us to escape a great part of the danger with which we were threatened, while we enjoyed the great advantage of a steady currency, free from those rapid changes which would have taken place had our exchanges, as appears most probable, been exposed to great variations, and our currency compelled to follow them. At the same time, it is not possible, perhaps, to suppose that there existed no depreciation whatever from the former value of our currency when the interest of the state, of merchants, and of the bank, united to encourage a large issue. Our astonishment is, indeed, excited that the depreciation should have been so small; that during more than twenty years the bank, if she really possessed the vast power over the currency usually attributed to her, did not employ it more actively, and that her notes, when once issued, and having once affected prices, should, under any circumstances, have returned to her. We should certainly be inclined to infer, from the experience of those times, that the power of a bank issuing convertible notes to extend the currency must, to say the least, be, in practice, very limited indeed.

The general opinion at this time was, that the currency had been less valuable during the restriction than formerly, by the difference between the mint and market prices of gold, and serious thoughts were entertained, in 1819, of reducing the national standard of value, which were abandoned, partly from the difficulty of deciding upon the proper amount of the reduction, and partly from the consideration that any reduction would be unjust.

It is remarkable that no difficulty was experienced by our merchants in carrying on their trade with other nations during this period, though they no longer had a stock of bullion kept for them at the bank, by means of which they might adjust their foreign payments; no inconvenience indeed of any kind was felt from the substitution of paper for gold, and, if the bank directors had so ordered their issues as to keep the mint and market price of gold on an equality, it seems that no objection whatever could have been urged against the paper currency, except its liability to forgery, and we should never have heard of the currency controversy.

As it seems extremely doubtful whether our currency was really augmented during the restriction to such an extent as to produce any effect

on prices, it is hardly necessary to enter into the arguments which have been brought forward to prove that the prosperity which we are said to have enjoyed during the war, was due to the extension of our currency; one remark, however, may be made, namely, that assuming the existence of a depreciation of the currency, it had not had the effect of benefiting the labouring classes, for, notwithstanding the demand for men to supply the army and navy, and to carry on the increasing manufactures and the improved agriculture, the poor were great sufferers; it is at this time, when our currency is said to have been greatly depreciated, that the system of paying part of the labourers' wages out of the poor-rates arose, a system which was, in fact, an extension of those poor laws which were first introduced on the occasion of the great increase of the currency in the reign of Elizabeth, a coincidence which seems strong evidence that a rise in prices, caused by a depreciation of the currency, is injurious to the working classes.

The reader will not fail to notice the smallness of the sums which are supposed to extend the currency so as seriously to affect prices, an addition of three or four millions is considered sufficient to raise prices twenty or thirty per cent.

CHAPTER V.

SECOND PERIOD OF A MIXED CURRENCY OF BANK-
NOTES AND GOLD.

Motion to Repeal the Act of 1819.—Estimates of Mr. Attwood and Sir A. Alison of the Depreciation of the Currency during the War.—The Panic of 1825.—Notes under £5 prohibited, and Joint-Stock Banks allowed to issue Notes.—Drain of Gold in 1830.—Committee on the Bank Charter in 1832.—Statement of the Directors as to their mode of Managing the Circulation.—Mr. Norman's View of the Connexion between the Currency and Prices.—The Country Bankers deny that they have any Power over their Issues.—The Pressure in 1837.—Mr. Horsley Palmer denies that the Bullion left the Country from Over-issues of Notes.—Lord Overstone's Tracts.—Considers that Prices can be regulated by the Issues of the Bank.—His Theory that the Currency should be made to vary at all times, as if metallic.—His Cycle of Trade.—Advises the Separation of the Banking and Issue Departments of the Bank.—Mr. Tooke's History of Prices.—He denies any Connexion between the Issues of the Bank and Prices.—Remarks upon his Views.—Drain of Bullion in 1839.—Lord Overstone considers it to have been caused, in part, by the Country Banks.—Admits that Prices may be influenced by Speculation as well as by Extension of the Currency.—His Views Identical in Principle with those of Mr. Ricardo.—The Committee on Banks of Issue in 1840.—Are Bank-notes

Money, or mere Forms of Credit?—Views of Lord Overstone and Mr. Norman on this Point.—The Private Bankers again state their Inability to Enlarge the Currency.—The Bank Act of 1844.

SHORTLY after the resumption of cash payments, a severe fall occurred in the price of all agricultural produce. As the corn-laws, passed in 1815, proved on this occasion so ineffective in keeping up prices, the agriculturists began to suspect the influence of the recent change in the currency; they drew the attention of Parliament to the subject, and Mr. Western moved for a committee to examine the effect of the bill of 1819 on “the Agriculture, Manufactures, and Commerce of the kingdom,” with the express object of obtaining an extension of the currency, until the price of a quarter of wheat should reach 80s. From this time the currency unfortunately became again a warm party question. Those who could see no force in the arguments of the bullionists during the suspension of cash payments, and who supported the Government of that day in maintaining that the currency was not depreciated, now suffered themselves to be persuaded that a most extraordinary diminution in the value of money had occurred at that time. It would occupy too much space to enter into any detailed

examination of the arguments brought forward in favour of Mr. Western's motion, we must confine ourselves to the views expressed by Mr. Attwood, his most powerful supporter, and the founder of what, from his being at this time member for Birmingham, has been celebrated as the Birmingham school of political economy, whose disciples consider an extension of the currency the only hope of the nation. Mr. Attwood maintained that the fall in prices had not affected agricultural produce alone, but had been general, and he referred, as proof of this assertion, to a table compiled by Mr. Tooke, of the price of thirty articles, from which he shewed that there had been an average fall of 45 per cent. in their price. This fall in price must, he maintained, have been occasioned either by a great increase in the quantity of all produce, or a diminution in the quantity of money, and the latter supposition must be the true cause, for it was impossible to believe that the quantity of so many different commodities had been increased, that all labour had become suddenly more skilful and efficient. He then entered into an examination of the connexion between the reduction in the amount of the currency and the extent of the fall in prices. He estimated that the five-pound notes

had been reduced by about five millions, that is, by somewhere between a fourth and a fifth of the whole amount ; as, however, prices had fallen to the extent of one-half, he endeavoured to shew that there were many articles whose price consisted in great part of taxation, and, therefore, could not be lowered, they, consequently, required as much currency as before, leaving less than a fair proportion of the diminished currency to circulate the other articles, such as corn, which were not taxed, and which, consequently, fell in price more than in proportion to the contraction of the currency. This argument is ingenious, but Mr. Ricardo has shewn that the increase of price, caused by taxation, does not require more currency, the tax merely transfers the consumption of the articles, and the money to pay for them, from the people to the state.* Mr. Attwood maintained,^b also, that the difference between the mint and market price of gold was no criterion of the value of that metal, as compared with commodities ; that during the restriction on cash payments, the general disuse of gold in the country, by taking away one great

* Political Works, p. 127.

^b Hansard, vol. vii., p. 386.

demand for that metal, lowered its value, as compared with commodities, and that, on the other hand, the sudden demand for so large a quantity as was required for coin in this country on the resumption of cash payments, enhanced its value. The theoretical correctness of this view is generally acknowledged, but it is doubted whether the extent of the change in the demand for gold was sufficient to cause any perceptible effect on the value of the large mass of that metal in the world ; we have seen, too, that the practice of hoarding, carried on during the war, in all probability more than counterbalanced any extra supply of gold thrown on the market of the world by our abandonment of cash payments.

This theory, that the difference between the mint and market price of gold is no criterion of the amount of the depreciation during the war, is a favourite with the advocates for an abundant currency. Sir Archibald Alison does not hesitate to estimate the depreciation of the currency as compared with commodities at 75 per cent. He says that bank-notes never were depreciated as compared with gold, whatever party spirit might affirm to the contrary, but that the value of the whole currency, gold and notes, was depreciated

75 per cent. as compared with commodities.* Now, this amounts to saying that the abundance of gold in the market in consequence of our ceasing to use it as currency was so great, notwithstanding all the demand for that metal for the armies and for hoarding, that its value fell 75 per cent. as compared with commodities. The obvious extravagance of this position is sufficient to render it unworthy of our notice, except as shewing us to what an extent men's minds are warped with respect to this subject by prejudice and party feeling.

Mr. Attwood did not, at this time, argue that an increase of money promoted industry; he allowed that it was of little importance to the wealth of a nation whether its property and commodities were exchanged at a high or a low moneyed price; nor did he consider that the mere existence of low prices occasioned the distress which he considered to prevail: that arose from the fact that the same amount of money then possessed a different signification from that which it possessed when contracts were made, money had kept accounts falsely, and had given to one man the property of another, of the debtor to the

* History of Europe, vol. viii., p. 89.

creditor, of the tenant to the landlord, of the landlord to public and private annuitants, and to those that had incumbrances on their estates.*

Mr. Tooke^b maintained that, extraordinary as it might appear to Mr. Attwood, the fall in prices on this occasion was really caused by an abundance of commodities. There is certainly nothing wonderful in abundance being the consequence of renewed peace; but the complaints of distress about this time were so general that they must, we should suppose, have had some foundation. If abundance of commodities really existed, it is not unlikely that, until trade had found its proper channels, the interchange of the commodities was impeded. This is, indeed, the most rational explanation, and the one which is now, perhaps, most usually given by economists of the feeling of distress so unexpectedly experienced on the termination of the war. But if this check to business existed, what became of the money? Was a large part of it kept in idleness while low prices were current? If so, this period affords evidence in support of the views of Dr. Smith, and against Mr. Ricardo's theory that prices depend upon the extent of the currency.

* Hansard, vol. vii., p. 968.

^b History of Prices, vol. ii., p. 89.

Mr. Western's motion was rejected by a large majority ; but, in the same session, the time at which the issue of one and two-pound notes was to cease was deferred for ten years, with the view of affording relief to the landed interest by an extension, or at least by delaying an expected contraction, of the currency.

About this time the rate of interest began to fall, and the Government, in 1822, reduced the Five per Cents. to a Four per Cent. Stock ; and early in 1824 the old Four per Cents. were converted into a Three-and-a-half per Cent. Stock.

We now come to the great panic of 1825. From the close of 1822 prices gradually rose ; in 1824 this rise became very rapid, and great speculations were made in almost every article ; in the same and the following year large foreign loans were contracted in this country, and the celebrated and unfortunate schemes for working the gold and silver mines of America by English capital were set on foot. In the beginning of 1824 the foreign exchanges began to be unfavourable, and they continued to decline until the autumn of 1825, when they again improved. In December of that year the panic was at its height, and about seventy banks and an immense number of mercantile houses stopped payment.

On this occasion, the bank of England was exposed to a double drain of bullion ; first, to meet the foreign demand ; and, secondly, to supply the place of the one and two-pound notes of the country banks, whose credit was quite gone. Its treasure was reduced to about one million, and it is said that it must have stopped payment, and that we should have been reduced to a state of barter but for a box full of old one and two-pound notes, which was discovered by accident, and which satisfied a part of the demand arising from the destruction of the country paper, as confidence in the stability of the bank of England was still unimpaired, and its notes were as readily taken throughout the country as gold. In this position of affairs, though the amount of bullion in the bank was not much more than a million, the directors, seeing that the exchanges were favourable, were bold enough to increase their issue of notes by nearly eight millions. The panic was at once allayed by this measure, and the increased issues did not check the influx of bullion. This is a most important fact. This large addition to the currency could not have raised prices, or the importation of the gold must have ceased. The notes, as suggested by Mr. Thornton, must have been obtained by bankers

and merchants merely as reserves, and thus never came into comparison with commodities ; or they supplied the place of the currency, already locked up in such reserves, merely restoring the circulating medium to its former state, thus not raising prices more than would permit the return of an ordinary amount of gold.

During this panic the injurious effect of the usury laws upon the mercantile classes became extremely evident. The risk was so great, that no one could be found to lend money at the legal rate of five per cent., and many persons were forced to sell their property at a great sacrifice, to obtain the money which they could not borrow on the security of it.

The great prosperity which preceded the panic of 1825, and the commercial distress which accompanied it, like the occurrences of 1793, are constantly referred to as proving the power of bankers to produce such catastrophes by the issue of notes, therefore, as on the former occasion, we must notice any circumstances which may shew another origin for these events. The most probable cause for them, apart from the state of the currency, appears to have been, as alleged by Mr. Tooke in the second volume of his *History of Prices*, the reduction of the rate of interest on

the Government stock; this induced many persons to invest in foreign loans, the large gains of the early speculators in these loans tempted others, and excited a gambling spirit in the public, who then rushed into the schemes for working the silver-mines of America, and into the wildest speculation in all kinds of produce in the home market. How far the power of issuing notes may foster a spirit of this kind, though it may not have the power of creating it, is a question of great importance, to which our attention will soon be called.

The country gentlemen who supported Mr. Western's views, attributed the prosperity which preceded the panic entirely to the extension of the currency, which they considered to have resulted from the permission granted to the country banks to continue the issue of small notes; and they conceived that this prosperity would have been permanent but for the necessity of paying the notes in gold. We must, however, at present defer any further inquiry into their views, and turn our attention to the steps which were taken to improve the existing currency of convertible notes.

The first practical measure taken on this occasion was an attempt to give greater stability to

our banking system. Public attention had been attracted to the great distress caused by the stoppage of so large a number of private banks, and although only ten of the whole number of banks which stopped payment ultimately became bankrupt, it was supposed that want of sufficient wealth, and not want of due caution and preparation, was the great element of danger in the system of private banking. To remedy this evil, the law limiting to six the number of partners in any bank issuing notes was repealed, except as to the district within sixty-five miles round London, and the issue of all notes under £5 was prohibited. The bank of England also established branch banks in many of the large provincial towns.

The directors of the bank of England, however, did not escape all blame ; it was said that, finding the amount of their bullion very large in 1823, they had pushed their notes into circulation in every possible way ; that by this means the country bankers had been enabled and induced to make large issues, and thus speculation had been encouraged. They were also blamed for having continued to increase their issues, even after the exchanges began to turn against this country.

It is, perhaps, hardly necessary to mention that

the bullion kept by the bank was so much capital lying unproductive ; that it was an expense to the bank, while the securities, public and private—that is, the investments in which its notes and the deposits of its customers are placed—were the chief sources of its income ; it was, therefore, for the interest of the bank to keep the amount of the securities as high, and that of the bullion as low, as a due regard to safety would permit.

In 1830, the bank experienced a drain of gold during the political excitement on the continent, and in this country ; on this occasion, the bullion was reduced from nearly ten millions to about five millions ; but no inconvenience was felt by the commercial classes. This result was attributed, by the bank directors, to the fact that no speculative feeling existed at this time amongst the merchants, and credit was not in a state to be easily injured. The supporters of the Bank Act of 1844, however, maintain that no inconvenience was felt at this time, only because the bank directors had, for once, contracted their issues at the proper time. Perhaps, as this drain of gold arose from political causes, the notes which were presented for payment in gold were taken, to some considerable extent, from the amount of notes in the hands of the public generally, and not, as is

is usual in such cases, from the reserves of bankers.

In 1832, the period for which the bank charter had been granted being upon the point of expiring, a committee of the House of Commons was appointed to inquire into "the expediency of renewing the charter of the bank of England, and into the system on which banks of issue in England and Wales were conducted." The bank directors who were examined before this committee, described the mode in which they managed their business as follows :—The liabilities which they had to meet were the notes and the deposits of their customers, their assets were their securities, public and private, and the bullion. At what they called a period of full currency, by which they seem to have meant such a currency as exists when the exchanges are at par, they endeavoured to have these assets so arranged that the securities formed two-thirds, and the bullion one-third of the whole, and they professed to keep their securities at this fixed amount, supposing that the public, when in want of bullion, would procure it in exchange for notes, thus diminishing the amount of the circulation as they diminished the stock of bullion, and regulating the amount of the circulating medium for themselves.

The bank directors stated also, that in 1827, they had rescinded the resolution which had been passed in 1819, declaring that the amount of their issues had no connexion with the foreign exchanges, and that they now contracted their issues by the sale of a portion of their securities whenever the exchanges became so unfavourable that bullion began to leave the bank.

Mr. Loyd, afterwards Lord Overstone, and Mr. Norman, two of the principal authors of the plan by which the bank of England is now regulated, were examined before this committee. Lord Overstone's evidence, on this occasion, turned chiefly upon the question then agitated of allowing another bank of issue in London, and has not much reference to the plan which he afterwards proposed. It may, however, be mentioned, that he allowed that, even in 1825, there was no want of confidence in the ultimate solvency of the bank, and that if we had been driven to a state of barter, the inconvenience would have been very transient.

Mr. Norman enters more into the principles which he supposed to regulate prices; he states that the whole of a currency consisting of gold and of paper convertible for gold, might, for "a certain period" and to a "certain extent," be de-

preciated by an increase of the paper part of it, and, on this ground, he thought that the bank of England might force more paper on the public than was necessary for the circulation ; he allowed that by depreciation he meant a less value as compared with commodities, but he denied that the market price of gold could be raised, except to a very slight degree, so long as the notes were convertible for gold. (The reader will here recognize Mr. Ricardo's theory.) He stated that a depreciation of the currency, while the notes were convertible, could reach a very low percentage only, yet he allowed that an increase of a million of notes on a previous circulation of fifteen or twenty millions, might produce a rise in prices to the amount of five per cent. if all other portions of the circulating medium increased in the same proportion ; he did not say what he meant by the other portions of the circulating medium, though the views which he afterwards expressed shew that he must have meant country bank-notes only. He did not think the increase of prices in 1825 was due wholly to the increase of paper, or that it was in proportion to the increase of paper. The same amount of currency may perform much more work in periods of excitement, because the velocity of circulation

is greater. If a speculative rise in prices takes place, large issues by the banks will keep up the prices and carry on the spirit of speculation.

The country bankers who were examined before this committee denied that they had any power over their issues, they said that they could not pay any regard to the state of the exchanges, that the amount of their issues depended entirely upon the demands of their districts for circulation, varying with the state of business. Mr. Gurney and the late Baron Rothschild, when examined before the committee, agreed in this view; and Baron Rothschild further said, that the bank of England had no power, for any length of time, over the exchanges by means of its issues.

The principles upon which the bank directors professed to conduct their business being approved, the charter was renewed, in 1833, for ten years, with some changes in the law calculated to mitigate the inconveniences which had lately been felt. To diminish the probability of drains of gold, in support of the country banks, the notes of the bank of England were made a legal tender by all persons except the bank itself. The usury laws were repealed as to bills not having more than three months to run. The bank accounts were to be published monthly in the *Gazette*,

both to insure the adherence of the directors to their rule and give the public the means of knowing when to expect a contraction of the currency. And lastly, that the bank directors might have a greater command over their issues, and thus be enabled more easily to contract the currency when the state of the exchanges required it, one-third of the debt due to the bank by the public was to be repaid, by which its available capital would be increased by three millions and a half.

After the removal of the prohibition against the issue of notes by firms comprising more than six partners, many joint-stock banks issuing their own notes were established; and in the year 1836, their number was so greatly increased that either a bank or a branch bank was to be found in almost every town.

In 1837, there occurred another severe pressure in the money-market; several joint-stock and other banks stopped payment, and some of the largest and oldest houses in the American trade failed. The convulsion on this occasion fell with extreme severity on America, and the whole of the banks of the United States suspended cash payments. Attention was again called to the connexion between events of this kind and the state of the currency, and a discussion

ensued which led to the passing of the Bank Act of 1844, the effects of which have been the subject of so much dispute.

The reader will have remarked that the theory that prices depend upon the extent of the currency, particularly upon the number of bank of England notes in circulation, had been gaining ground for some time. The general impression on the public now seems to have been, that the bank possessed almost unlimited power over the trade of the country; that she could raise or lower prices, and excite or check a spirit of speculation amongst the people almost at will; and that she had abused this power for her own advantage, giving rise to speculation by forcing out her notes when it suited her purpose so to do, and ruthlessly contracting her issues when she found herself in danger.

Mr. Horsley Palmer, in his "Causes and Consequences of the Pressure in the Money Market," published in 1837, denied, on the part of the bank directors, that their issues had been excessive, or had caused the efflux of bullion. He stated that it had occurred, while the mercantile exchanges were favourable, in consequence of the loans to Don Pedro and to Spain, and that a further drain of gold had been caused by the mea-

asures taken by the President of the United States to introduce a gold coinage into that country. As the mercantile exchanges were favourable, there could have been no over-trading; and it would not have been justifiable, on the part of the bank, to have distressed commerce by diminishing her issues, while that course could possibly be avoided. He complains that when the directors thought it necessary to contract the circulation, the joint-stock banks counteracted their efforts; that country notes were issued as fast as the bank of England notes were withdrawn; that when the bank raised the rate of discount, the joint-stock banks lent money at the old rate, until their resources were exhausted; and that it was in consequence of the excitable state of the trading community, caused by the existence of so much paper credit created in this manner, that the attempt of the bank of England to contract the circulation had, on this occasion, been attended with a panic, while an equally great contraction of her issues had taken place in 1832 without inconvenience.

Mr. Palmer's pamphlet called forth a reply from Lord Overstone,* who entirely acquitted the

* Reflections on Mr. J. H. Palmer's Pamphlet, by S. J. Loyd.

bank directors of any intention to extend the currency for the benefit of the bank proprietors, but maintained that the rule on which they professed to regulate their business, namely, by keeping the amount of securities fixed, and to leave any variation in the amount of circulation and deposits to be met by a corresponding variation in the amount of specie, could not be applied by bankers who combined the regulation of the currency with their ordinary business. The diminution of specie might be met by a corresponding decrease in the deposits alone, leaving the amount of the circulation the same as before, and a heavy drain of bullion might thus take place without any contraction of the circulation by which alone that drain could be checked. He affirmed that the bank of England had not contracted its issues at the proper time; he doubted whether a continuous drain of bullion could go on, except from an unfavourable state of the exchanges, because a drain arising from peculiar circumstances in one direction would be soon corrected by a corresponding influx from other quarters; the safe course was, to consider any continuous drain of gold from the bank as conclusive evidence, without reference to vague and uncertain speculations as to the pre-

cise cause of that drain, of the necessity of effecting a corresponding reduction of circulation. If the drain had arisen from peculiar or local circumstances only, a very slight contraction of the circulation would cause an influx of bullion,—a slight contraction early applied, would prevent a convulsion. The one simple duty which the manager of the currency has to perform, is that of making the amount of the paper-circulation vary precisely as the amount of the circulation would have varied had it been exclusively metallic. Mr. Palmer had not proved that this had been done by the bank. Lord Overstone, indeed, doubts the possibility of any banker having the power to issue notes performing this duty. A banker having the power to issue notes could not avoid, in times of difficulty, making use of it for the relief of his customers.* Trade appears to revolve in a cycle,—first, a “state of quiescence; next, of improvement, growing confidence, prosperity, excitement, over-trading, convulsion, pressure, stagnation, distress ending again in quiescence. The banker cannot contract his accommodation while the whole trading and mercantile world are acting under one common

* Reflections, p. 44.

impetus of expansion ; if, under these circumstances the banker, in addition to what may be properly called his ordinary and legitimate resources, is also entrusted with the power of issuing paper money, *ad libitum*, is it not inevitable that he should abuse that power ? The effect will be to give a further stimulus to the existing tendencies of the trading world, and ultimately to aggravate the convulsion to which they must lead. It may be desirable that the bank should assist commerce, but out of its banking resources, not by expanding the currency. As to the effects produced upon the currency by the transactions on the foreign stock exchange, if they could not have taken place under a metallic currency, the paper currency, which permits them, is improperly managed ; if these transactions would have taken place under a metallic currency, then the effects which they would have produced on a metallic currency, (*i. e.*, a contraction of it) they ought to be permitted to produce equally upon a paper currency ; the utmost that can be expected from a paper currency is, that it shall be the medium of adjusting the transactions of the country, without greater inconvenience than would arise under a metallic circulation. To attempt to limit the fluctuations of the paper

money to narrower bounds than those within which a metallic currency would have oscillated, is an empirical procedure, not founded upon sound principles, and which could lead to none but the most dangerous results.*

Lord Overstone advised the gradual strengthening of the central issuer, and the separation of the banking functions from the management of the currency.

In another pamphlet,^b published in the latter end of the year 1837, when the exchanges had become favourable and bullion had been for some time steadily flowing into the bank, Lord Overstone remarked that the circulation had not undergone a corresponding increase, as it ought to have done, and would have done, if the circulation had been metallic ; in that case, the influx of gold which had taken place would have been so much actual increase of the circulating medium. He shewed that, so far from this being the case, the circulation had actually decreased. He attributed this state of affairs to the union of the business of banking with the management of the currency, which obliged the bank to support the

* Reflections, p. 57.

^b Further Reflections on the State of the Currency.

tottering houses during the pressure, thus causing a great increase of her notes ; which when the pressure was at an end, she was obliged to receive again, as those whom she had assisted then wished to repay her.

Lord Overstone here anticipated* the question which would be asked, namely, Ought the bank to force her notes into circulation on such an occasion ? would she not render money, already too cheap, still cheaper, foster speculation, and drive capital out of the country ? He replied : In a metallic currency, the intrinsic value of the coin will of itself preserve the circulation at its proper amount ; if it be too large or too small, as compared with the currencies of other countries, it will adjust itself by means of the exchanges. A paper currency is but a substitute for a metallic one, but, as it has no intrinsic value, it has no power of self-adjustment ; and some rule must be adopted for that end, and the proper rule evidently is, to cause it to vary as a metallic currency would do. Lord Overstone maintains that, if the circulation were expanded, the moment bullion began to flow in, the ill effects of the extension of the currency would be

* P. 32.

reduced to the lowest possible amount ; sooner or later, notes will be forced into circulation ; delay only increases the intensity of the effects. By a timely adherence to the above rule, the effects, which must occur to some extent, and which would equally occur under a metallic currency, will be rendered moderate and comparatively insensible in their consequences.

The reader will here, perhaps, feel inclined to ask, Has the bank the power to force her notes into circulation under the circumstances which Lord Overstone supposes ? Would not the reasons which made the merchants, who repaid the notes, unwilling to keep them, render others unwilling to receive them ? According to Lord Overstone's view, the bullion imported is really money, but is deprived of its true quality by being kept in the vaults of the bank, unrepresented by notes. This course must, however, be entirely contrary to the interests of the bank, and we cannot suppose that it is voluntarily adopted.

Lord Overstone says that the managers of the currency must have some fixed rule by which to guide their conduct. If we depart from the principle of making the paper circulation vary as a metallic currency would vary, and cause it to vary as the supposed wants of commerce require,

the amount of the currency and the value of all property must become completely vague; nor will mere convertibility for gold regulate the amount of the notes. Convertibility is a security against permanent excess of the currency, and fixes a limit beyond which irregularity in its management cannot be carried; but this principle comes into operation only through the medium of prices. If the currency be in excess, prices will rise, the balance of trade will be disturbed, and gold will leave the country; and thus there will, indeed, be a tendency, through the medium of convertibility, to restore the currency to its proper amount; but unless the notes which have been exchanged to procure the gold be cancelled, if they be reissued, the same process will occur time after time, until all the gold is gone, and the foundation upon which the paper currency rests may be shaken before the irregularity is corrected.

But the reader will perhaps think that it does not follow that, while these operations are in progress, there should be, at any time, a marked rise in prices. A rise just sufficient to pay the expense of exporting the gold ought to bring about the commencement of the contraction of the currency, and, if so, the currency could hardly be

expanded until all the gold was gone, and then an expansion would be shewn by a rise in the market price of gold bullion. Again, Lord Overstone seems to contemplate, as a natural state of things, that gold coin and notes should circulate together, and be used by the people indifferently in their ordinary business. But is there any instance in which notes of undoubted credit have circulated in this way, simultaneously with gold, being of the same denomination or amount as the gold? Is it consistent with theory that they should do so? Let us suppose, with Dr. Smith, an issue of one-pound notes of undoubted credit into a currency of sovereigns; the notes would be used, because they were more convenient than sovereigns, and because the sovereigns could be sent abroad to be exchanged for the materials of manufacture and the like. Now, what is to stop this process until all the gold is gone out of the circulation, leaving only a sum of money in the banker's hands, which is not in circulation, but kept only to be substituted for notes, if demanded? Yet the currency would not, by this process, be in the least increased beyond its metallic amount. Is not this the case in Scotland, where no gold circulates? Would it not naturally be the case in America, were it not that the notes of the diffe-

rent local banks are not of undoubted credit, and do not circulate throughout the whole of the States, and, consequently, a considerable metallic currency is required for the use of persons going through different States? Is it not probable that almost all the payments above £5 in this country are made with notes, and that our circulation is entirely paper, to the extent of the denomination of the paper?

Lord Overstone says, if the bank would strictly adhere to the rule of making the paper circulation vary as a metallic currency would do, she could have no power over the abundance or scarcity of money, or the rate of interest. As a mere regulator of the currency, she would keep out the requisite number of notes, either by purchase of Government securities, or by loans of money to the highest bidder; but in her banking capacity she can, and frequently does, produce a strong effect upon the money-market. The minor bodies which revolve around her, follow her example, and the public attribute this effect to the management of the currency, and not to a simple banking operation by a powerful body.

About this time Mr. Tooke published a new edition of the two first volumes of his great work on the History of Prices and the Circulation, in

which he, for the first time, announced the views which he now maintains with reference to this subject. He had traced the connexion between prices and the state of the circulation, from the commencement of the great struggle with France, in 1793, expecting to find that prices had closely followed the variations in the issues of the bank, but the evidence which he collected gradually changed his views in this respect. It is impossible to follow him into this inquiry in detail, we can only mention that he now supposed that he had found, that even during the suspension of cash payments, prices had not only not varied with the issues of the bank, but had frequently taken an opposite direction, becoming high when the amount of notes was comparatively small and low, when a large issue had taken place. Such changes in price as had taken place could be attributed, he maintained, to special causes, and wanted that character of generality which attends changes arising from a depreciation of the currency. Similar results had occurred since the act of 1819, and, on the whole, Mr. Tooke conceives, that facts shew that the issues of the bank do not directly influence prices by extending or reducing the currency, nor by exciting a spirit of speculation in the people.

Upon these points we must remark, in the first place, that Mr. Tooke has not shewn, that during the restriction on cash payments, any fall of prices occurred; now if, as is probable, gold had become scarce at that time from hoarding, prices ought to have fallen, our bank issues then, though they did not raise prices, kept them from falling, which is as good a proof of the dependence of prices on the extent of the currency as a general rise of them from its augmentation.* And, secondly, as to the amount of generality in the variation of prices. A fall in the prices of many articles may occur at the very time when the currency is being extended and general prices are rising. People seem generally to contemplate only the case in which the quantities of articles do not increase, or in which they increase proportionally; but let us suppose the quantity of any one article to be greatly increased, the others remaining as they were, then a given portion of this article will no longer exchange for so much of other articles as before, and, as the currency cannot alter the proportion in which articles exchange with each other, at the same time and place, the price of the article which has increased

* See this point noticed in *La Monnaie*, par M. Michel Chevalier, p. 351.

must fall, so as to permit it to exchange with other articles, through the medium of money, as it would, by barter. It might happen, therefore, that when the general average of prices was steadily rising, from an increase of the currency, there might be a great fall in the price of several articles, and the small change in price due to the increase in the currency, might be easily overlooked. We have seen that Mr. Thornton spoke with confidence of a general increase in the value of all property since the commencement of the century; the very fact that two practical men, such as Mr. Thornton and Mr. Tooke, should differ so much upon this point, shows the difficulty which attends such statistical inquiries. The importance of this observation will be more apparent when we come to examine the effects of the gold discoveries.

As to the correctness of Mr. Tooke's statistics, they have frequently been attacked by his opponents, but the errors they have alleged, if allowed, have not, perhaps, been to an amount sufficient to allow us to attribute to them any important effect upon prices, through the agency of the currency, now that we have seen such comparatively small results produced by means of the new gold.

In 1839 there was a fresh drain of bullion, and the treasure of the bank of England was so much reduced, that the directors were driven to what is often called the discreditable expedient of borrowing two millions and a half on the Continent. Lord Overstone pointed out,* on this occasion, the near approach which the bank had made to a position in which she would have been obliged to suspend cash payments, the amount of bullion remaining in her vaults being less than the sum borrowed on the Continent. He allowed that the period had been one of heavy pressure. Two bad harvests in succession, large importations of securities from the United States, and a peculiar state of the money-market at Paris, had all united to cause a heavy drain; but the trials of our monetary system must always arise from causes of this kind, and the rule for the management of our circulation must hold good under them.

Lord Overstone, however, did not allow that the bank of England alone was to blame, as was frequently stated; he maintained that the issues of the country banks do not of necessity conform to those of the bank of England, as supposed by Mr. Thornton and others; that local

* Remarks on the Management of the Circulation, p. 31.

prices and an exchange cannot be caused by the local banks, because the district in which each local issuer is situated is not isolated so completely from the district of the central issuer as one country is from another ; the issuers of the same country are competitors, and a contraction by one issuer may cause an expansion by another. At first, when the central issuer contracts his issues, the void created is filled up by the local issuer, who thus prevents the reduction of the notes of the central issuer from affecting the exchanges and bringing back the gold ; but when, by a steady perseverance in contraction, the central issuer gives a shock to credit and confidence, then the country issuer, in common with all engaged in commercial operations, must submit to this influence ; and in proportion as his steps have been in a wrong direction, so his subsequent rebound is sudden and rapid.* As an instance of this, Lord Overstone states that the highest amount to which the country issues were ever carried was in June, 1839, a period of unfavourable exchanges and of a heavy drain upon the bullion, and when the bank of England had reduced her issues by more than seven hundred

* Management of the Circulation, p. 66.

thousand pounds. The result of this state of affairs is, that the necessary and inevitable contraction of the currency is delayed, and rendered more oppressive than it would have been.

In allusion, apparently, to the views recently expressed by Mr. Tooke, Lord Overstone remarked that the connexion between fluctuations in prices and variations in the amount of the circulating medium, is a question of extremely difficult solution, that the immediate effect upon prices of any variation in the amount of the circulation may be over-estimated, but that there certainly exists a very intimate connexion between them.* Leaving this point, however, at that time, he maintained that a due regulation of the currency is necessary to preserve the convertibility of the paper ; and he instanced America, to show that a central issuer is necessary to secure this proper regulation, without which we should be subject to a succession of disasters, such as had just occurred in that country.

The bank of England having been attacked by the Manchester Chamber of Commerce as the cause of the fluctuations which had occurred in

prices, and of the pressure felt by the mercantile classes, Lord Overstone maintained* that fluctuations in the amount of the currency are seldom, if ever, the existing causes of fluctuations in prices and in the state of trade. These causes are—the buoyant and sanguine character of the human mind, miscalculations as to the relative extent of supply and demand, fluctuations of seasons, changes of taste and fashion, legislative enactments and political events, excitement or depression in the condition of other countries connected with us by trading intercourse. Mismanagement of the circulation, that is, fluctuation of the amount of paper issues not corresponding to those of the bullion, only aggravates these evils, but does not create them; nor was the bank of England to blame for the pressure which had recently occurred. A reduction of the circulation must, at all times, tend to check the facility of credit and to lower prices; it may be felt as a serious pressure, but if the bullion be diminishing, the bank ought to have no option—she must reduce her issues, otherwise the paper circulation could not act as a metallic circulation would have done. He maintained, too, that though the bank may

exert a powerful temporary influence upon the rate of interest, the proportion between the supply and demand of money will fix the price of money, if the bank be not allowed arbitrarily to augment her issues. When asked how these views are to be reconciled with his theory that prices depend upon the extent of the currency, and that the bank has the power of lowering prices by contracting her issues, and that this course must be pursued, to restore the exchanges and recover the bullion, he replied, that a change in the amount of the circulating medium must always have a tendency to produce a corresponding effect upon prices, and must, if maintained for any length of time, inevitably have that effect; but the rapidity of the change, and the extent to which it will go, depend in no inconsiderable degree upon other circumstances than the simple variation in the amount of the circulation. If the change take place simultaneously and act in the same direction, with a tendency originating in other circumstances, to a rise or fall in prices, it will both accelerate and intensify this result, but if the change be unaccompanied by, or be in opposition to such tendency, its effects will be very seriously counteracted, and may remain for some

time altogether imperceptible.* Time is a great ingredient in all such questions ; the doctrine that the general level in prices is determined by the value of the circulation in which those prices are measured, and that such value is liable to be affected by fluctuations in the amount of the paper issues, was, he asserted, well established ; but in making practical application of this principle, it is necessary to take into account all the disturbing circumstances, and to make due allowance for the friction and resistance which those will offer to the pure development of the results which might be otherwise anticipated.

Without passing any opinion at present upon the correctness of Lord Overstone's general views, this certainly appears a weak point in his theory ; if prices do depend upon the extent of the issues of bank-notes, it seems only necessary to make the contraction sufficiently great, and the check to the rise in price will be immediate, apply more power and the friction will be overcome ; again, if time be required to enable the measures of the bank to take any effect, we encounter another difficulty, because we must then allow that convertible notes may be in circulation

* Second Letter to J. B. Smith, p. 22.

for a considerable period in a greater or less extent than the gold, whose place they would supply.

This point is of extreme importance to the whole of Lord Overstone's theory; indeed, he allows, that unless it be admitted that a very intimate connexion exists between the amount of the circulation (that is, according to his views, between the amount of bank-notes and coin,) and prices, the whole doctrine of regulating the circulation by reference to the state of the exchanges falls to the ground, and we are left without any principle upon which the management of the circulation can rest.*

Lord Overstone seems to have supposed that the bank had, on more than one occasion, been so near a suspension of cash payments as to cause great alarm to the public.

The reader will see that Lord Overstone's views are very similar to those of Mr. Ricardo; he supposes, with him, that when the currency is metallic, prices depend upon the quantity of bullion in the country, and that the greater part at least of exports and imports of bullion, are adjustments of the currency, rendered necessary by

* Remarks on the Management of the Circulation, p. 91.

changes which have taken place in the prices of goods, either from a direct extension or contraction of the currency, or, more frequently, from changes in trade, and in the quantity of commodities, which render the same amount of currency more or less efficient in circulating commodities, or cause it to have a different ratio to them, and he supposes, with Mr. Ricardo, that even on the occasion of a bad harvest gold leaves us, not as the most convenient form of capital with which to pay for our corn, but from causes connected with the currency; and, as the depreciation of the currency, which he supposes to have caused high prices, is not accompanied with any change in the market price of gold, he evidently adopts Mr. Ricardo's very abstract theory, that gold bullion is made cheap by an expansion of the paper portion of the currency. Lord Overstone, however, admitting that fluctuations in price may occur from causes independent of the currency, from the buoyant and sanguine character of the human mind, that is, from an expansion of credit, has to consider a point which was omitted by Mr. Ricardo, namely, what is to be done when the exportation of gold takes place in consequence of such last-mentioned rise in prices; we shall find that he still thinks that

the gold is to be retained only by acting on the currency.

Very similar views were entertained at this time by Mr. Norman, Colonel Torrens, and others. It is evidently necessary to their practical application to establish the fact that bank-notes form the basis of the whole circulation, and that prices depend upon the amount of them. If prices could be kept up by the employment of bills of exchange or cheques on bankers, it would evidently be of little use to regulate the amount of bank-notes. Accordingly, a great dispute arose as to this fact, discussions upon which fill a large part of the bulky volumes issued by the committee of the House of Commons appointed, in 1840, to "inquire into the effects produced on the circulation of the country by the various banking establishments issuing notes payable on demand." Lord Overstone, when examined before this committee, repeated his opinion that a currency consisting of coin and bank-notes convertible for coin might be depreciated for a considerable time, as compared with the currencies of other countries; that if bullion left the country, under any circumstances, it could not be regained without a contraction of the money; and he stated that bank

notes alone, of all paper instruments by which payments were effected, were money, and alone formed the regulator of prices. The money, or currency of the country, he maintained, is marked by certain distinguishing characteristics; its amount is determined by the laws which apportion the precious metals to the different countries of the world; it is, in every country, the common measure of the value of all other commodities, the standard by which the value of any other commodity is ascertained, and every contract fulfilled; and it becomes the common medium of exchange for the adjustment of all transactions, equally, at all times, between all persons, and in all places; it has, further, the quality of discharging these functions in endless succession. Bank-notes come within this description, but neither deposits (*i. e.*, cheques on bankers,) nor bills of exchange, in any way possess these qualities, the amount of them is not determined by the laws which determine the amount of the precious metals in the country, they are not a common measure of value, or a standard by which the relative values of all other things can be measured, and they do not possess that power of universal exchangeability which belongs to the money of the country. (It is ne-

cessary for Lord Overstone's theory that all bank-notes, whether issued by the bank of England or by country bankers, should be considered money. The reader should examine how far these distinguishing characteristics of money are applicable to a £20 bank-note issued by a country banker.) Lord Overstone further stated, that bank-notes and coin formed the basis which supported bills of exchange and other forms of credit in use in the country, and regulated their number.

Mr. Norman did not deny to bills of exchange and cheques the character of money so completely as Lord Overstone; he stated the three most essential qualities which money should possess to be—that it should be in universal demand by every body, in all times and in all places; that it should possess fixed value, and that it should be a perfect numerator, that is, should measure the value of all other commodities with the greatest facility; and he mentioned that bills of exchange and cheques possessed these qualities only in a very low degree; a bill of exchange is of no use to an individual unless it be indorsed to him; a man cannot go into a shop and buy what he wants with a bill of exchange, he could not pay his labourers with it; the same with a

banker's deposit or credit in a banker's book ; by these means he can make his payments with less money, but he cannot do with them what he could do with sovereigns and shillings. Mr. Norman here seems to forget that paper for large amounts, whatever may be its nature, cannot be expected to fulfil the duties of small money ; we should put his definition of money to the same test as Lord Overstone's, and try how far we can distinguish a bank-note for £20 from a cheque on the banker.

The effect of a rise in the rate of interest in stopping a drain of gold, and the power of the bank to raise the rate of interest, were discussed at some length before this committee. Lord Overstone and Mr. Norman supposed, that a rise in the rate of interest acts by contracting the currency, it diminishes confidence, thus causing the bankers to hoard notes, which, in fact, amounts to a contraction of the currency, lowers prices, and encourages the export of commodities in place of gold. This we see is Mr. Thornton's theory revived, and it seems to have been the view generally entertained by the committee ; but Mr. Tooke maintained that the rise in the rate of interest would not necessarily have any

effect on the price of commodities, but would cause a fall in securities, which would induce foreigners to invest in our securities, and thus give rise to an influx of gold. All parties seemed to agree that the bank has power over the rate of interest only for a short time during periods of excitement, and to a small extent. The rate of interest, Lord Overstone says, is determined by the proportion between the quantity of capital in the country and the demand for the employment of it. These are difficult points, which we shall find much discussed.

The English country bankers and the Scotch bankers, when examined before this committee, again unanimously stated that they had no power to enlarge their circulation at will. The Scotch bankers, in particular, stated that, if they made an advance to a customer in their own notes, in general these notes were returned to them in a few hours. They had control over their advances of capital; they could extend or contract these, and they were in the habit of regulating them by reference to the state of the foreign exchanges.

All the supporters of Lord Overstone's theory refer to the state of banking in America as conclusive proof that mere convertibility will not

ensure the maintenance of the value of the notes without some regulation of the issues ; and Mr. Norman states that, after the general suspension of cash payments in 1837, there were instances of convertible notes being depreciated ten per cent., although there existed no want of confidence in their ultimate payment in coin. In this passage, Mr. Norman evidently seems to allude to a difference between the value of the notes and the value of gold at the same time and place, which is a very different thing, as we have seen, from a depreciation of the currency by its extension, by means of notes, beyond its due proportion to the currency of neighbouring states, which is what Mr. Norman generally means by a depreciation. It is very unfortunate that Mr. Norman should have made use of this illustration, as it certainly throws a considerable appearance of confusion over his theory, already sufficiently abstruse.

Mr. Norman considered a central issuer so important to the steadiness of a currency, that he predicted that, without one, the United States would experience frequent repetitions of the disasters of 1837.

We have seen that it seems essential to Mr. Ricardo's theory to consider money as having no

intrinsic value ; his followers accordingly describe money as a sign of value.*

The labours of this committee were brought to a sudden close by the dissolution of Parliament which followed Sir Robert Peel's return to power in 1841. That statesman, however, adopted, in a great degree, the views of Lord Overstone and his supporters, and procured the passing of the celebrated Bank Act of 1844, which embodies these views.

In the opening of his address to the House on the introduction of this measure, Sir Robert Peel speaks in the strongest terms of its importance. He says : " There is no contract, public or private—no engagement, national or individual—which is unaffected by it ; the enterprises of commerce, the profits of trade, the arrangements made in all the domestic relations of society, the wages of labour, pecuniary transactions of the highest amount and the lowest, the payment of the national debt, the provision for the national expenditure, and the command which the coin of the smallest denomination has over the necessities of life, are affected by it." These expressions are remarkable. They show the import-

* Mr. Norman's Letter to Sir Charles Wood on Money.

ance attached by Sir Robert Peel to even temporary variations of the measure of value, and would lead us to expect that the lasting and progressive depreciation of the currency threatened by the new gold should attract the attention of the statesmen of his school.

By the Act of 1844, the business of the bank was divided into two departments. Upon the 31st of August, 1844, there were to be transferred to the issue department, first, fourteen millions of securities, including the Government debt, and, secondly, all the bullion and coin, except a small sum employed in banking; and this department was thereupon to deliver to the banking department such an amount of notes as, together with the notes then in circulation, should be equal to the amount of the securities and bullion so transferred to it. The issue department was not allowed to issue any notes for the future, except in exchange for bullion, or for other bank of England notes, but it was compelled to give notes in exchange for bullion, and the bank was authorized to issue such notes as it received from the issue department without restraint, as any other person obtaining them in lieu of gold might have done; weekly accounts were to be published by the bank. On the 7th of September, 1844,

when the first weekly account appeared, the bullion exceeded fourteen millions, the number of notes in circulation in the hands of the public was about twenty millions, about eight millions of notes were, therefore, handed over to the banking department, and with these the bank was to deal as any other banker, they formed the fund out of which alone the bank had power to increase its discounts. The reader will see that even now there was no security that the amount of notes actually in the hands of the public should vary with the amount of bullion. These eight millions of notes did not necessarily go into the hands of the public; they, in fact, remained for a year and a-half on this occasion in the till of the bank unemployed; we shall see, however, that Lord Overstone and his school maintain that they influence prices in this state, as much as if with the public.

It is evident that the amount of these notes so handed over to the issue department, limits the power of the bank over the bullion in its coffers; if the bank chose to exchange them for gold, there would be left still in the issue department an amount of bullion equal to the difference between the amount of notes actually in circulation with the public and the sum of fourteen millions,

and this difference forms, in fact, the fund provided by the act as a guarantee for the convertibility of the notes.

The amount of notes to be issued, without reference to the stock of bullion, was not fixed at fourteen millions because that happened to be about the amount of the capital of the bank, but because experience had shown that the number of notes in the hands of the public had never, in any previous panic, been reduced below that sum ; it was, therefore, unnecessary to provide a fund of gold to meet these fourteen millions of notes, as they would never be required to be paid in gold. Our bank of England notes may now, therefore, be said to be, to all purposes, as much represented by gold as if there were in the bank bullion to the whole amount of them issued.

As it can but rarely happen, that the notes in circulation with the public should ever approach the low limit of fourteen millions, a practical effect of the act of 1844 must be to render a large part of the bullion in the bank unavailable to meet any drain upon it, except a run for gold for internal purposes, such as occurred in 1797 or 1825. For the purposes of international adjustment this bullion is locked up, but not as to the purposes of internal circulation,

as it is represented by an equal amount of notes in the banking department ; it is, in fact, that bul-
lion which Dr. Smith supposed the bankers would keep as a security for the convertibility of the notes ; it forms no part of the circulation, being kept to take the place of that circulation when requisite.

By this act no new banks were to issue notes, and any bank already existing which ceased to issue them, was not to be allowed again to resume that privilege, all the private banks, too, were limited, under heavy penalties, to the average amount of their issues for the twelve weeks preceding the 17th of April, 1844, and the bank of England was allowed to compound with issuing banks for the transfer to her of that privilege, the object of all these provisions being evidently the gradual extinction of the private issues. By this act it was provided that the bank might issue additional notes upon securities to the extent of two-thirds of the lapsed issues of the country banks, on being authorized so to do by an order in council.

CHAPTER VI.

SECOND PERIOD OF A MIXED CURRENCY OF NOTES
AND GOLD, CONTINUED.

Opinions of Mr. Tooke and Mr. Fullarton on the Question.

—They deny the Power of the Bank to extend or diminish the Currency when the Notes are Convertible.—Drains of Bullion are Modes of Transferring Capital, and, under a Metallic Currency, are paid out of Hoards and not out of the Circulation.—They advise the Keeping of a larger Stock of Bullion.—They predict the Suspension of the Act.—Mr. Wilson's Capital, Currency, and Banking.—Supports Mr. Tooke's View.—The Currency and the Country, by Mr. Hubbard.—Drains are stopped by the Rise in the Rate of Interest caused by the Efflux of available Capital in the Shape of Gold.—The Crisis of 1847.—Committees on Commercial Distress.—Lord Overstone's Evidence in favour of the Act.—Consideration of the Question, What determines the Rate of Interest?—Importance of the distinction between Capital and Currency.—The Lords report in Favour of an Amendment of the Act.—The Commons in Favour of its Existing Form.—Mr. Hubbard's Estimate of the Extent to which our Debt on this occasion was paid in Bullion and in Securities.—Mr. J. S. Mill's Review of the Principles on which the Act of 1844 is founded, and of its working.—Mr. Macculloch's View of the Theory of a Mixed Currency.

WE will now take a glance at the views of some of the opponents of the theory upon which the act of 1844 is grounded. Mr. Tooke* says, that the promoters of the act of 1844 have misunderstood the working of a purely metallic currency ; he denies that every exportation of bullion would be attended with a contraction of the amount of the currency, and a rise of prices ; the bullion exported is not, necessarily, part of the circulating coin, there is always a mass of bullion in such a country as England, which forms no part of the circulation, but is kept for the purpose of settling international balances. As the coinage is free, a part of this bullion may very likely exist under the form of sovereigns, but these sovereigns form no part of the coin used for internal circulation, probably this bullion may amount to five or six millions sterling, it is capital not currency. This we see is nearly identical with Dr. Smith's view upon the subject.

Mr. Tooke maintains that bank-notes are no more money than bills of exchange or cheques upon bankers. Bills of exchange might be used in lieu of the higher bank-notes if the stamp-duty were removed, and he shows that they

* " Inquiry into the Currency Question."

were so used in Lancashire ; they might, indeed, not be quite so convenient as notes, but cheques on bankers would settle accounts quite as readily as notes. This question, however, he considers of little importance, for he denies that under a convertible currency such as ours, prices depend upon the amount of either bank-notes or bills of exchange. Prices depend upon the terms in which articles go into consumption, and these terms depend upon the quantity of money constituting the revenue valued in gold, which is set apart by the community for current expenditure. (The reader will remember that Dr. Smith stated, that when the notes, as in our currency, were not for small sums, the circulation was confined to transactions between dealers, leaving the circulation between the dealers and consumers to be carried on by gold, and that prices amongst the dealers could not be higher than those between the dealers and consumers.)

The amount of the circulation must depend upon the quantity of it required to circulate the commodities of the country at the price determined by this law, and neither the bank of England, nor any other bank, has the power of altering this amount at will. The universal denial by the private bankers of the possession of any

power to increase or diminish their issues, and the small amount of notes circulating in Scotland, not half so large in comparison with the population as that circulating in England, notwithstanding the keen competition of the Scotch banks, show that this principle is correct, as far as the private banks are concerned, and what greater power has the bank of England of extending her issues than any other bank? Her notes are delivered out on loan like those of other banks, and not in payment, as is the case with a Government paper money; they are issued only to those who, being entitled to demand gold, ask for notes, and they are returnable to the issuers; the quantity demanded depends upon the purposes for which the notes are wanted; the quantity is an effect, and not a cause of the demand. Mr. Tooke, we have seen, had already shown, in his *History of Prices*, that there had not, in fact, been any correspondence between the course of prices and the variations in the issues of the bank of England, and that there was no proof that an abundance of notes excited speculation. Further observations had confirmed his belief in these respects. It is the expectation of gain which supplies the motive for speculative purchases, and the credit of the buyer supplies the

means of purchase ; notes are mere written forms of this credit ; nor is it the scarcity of the circulating medium which causes prices to fall, but the mistaken anticipations of the speculator. He allows, however, that, though banks of issue cannot increase the circulation at will, and, therefore, cannot, by this means, stimulate speculation, yet, in their attempts to get out their notes, they are likely to grant advances with less regard to the stability of the borrowers than mere banks of deposit, they are more likely than these to grant advances of capital recklessly, and may thus give rise to and foment a spirit of speculation ; but this is the result of an easier state of credit, not of an extension of the currency. Mr. Tooke's admission, however, seems fatal to the argument that banks of issue are not fomentors of speculation, for that generally takes its rise amongst those who have little to lose, and little security to offer ; if these persons can get credit from banks of issue, when they could not get it from banks of deposit, then it must be allowed, that the privilege of issuing notes does conduce to the excitement of speculation.

Though Mr. Tooke denied that prices of commodities could be regulated by the direct operation of expansions and contractions of the issues

of bank-notes, he did not suppose, with Lord Overstone, that we should be left without any means of restoring the exchanges, if it were thought necessary to take any steps for that purpose. The exchanges would be very powerfully affected by the bank raising the rate of interest, which would lower the price of securities, though not necessarily of commodities, and would attract capital from foreign countries for investment here; but the fluctuations of the rate of interest under this plan would be much greater than formerly, and would prove injurious to commerce; the bank should be compelled to keep a larger stock of bullion, and drains should then be allowed to take their course, as experience had shown that, if left alone, they would cease in a short time, and the exchanges become again favourable. Mr. Tooke considered a reserve of ten millions a sufficient mass of treasure to support a drain without interference.

With reference to the working of the new act, Mr. Tooke observed, that a demand for gold would, most likely, take place through the deposits, and not by withdrawing a part of the notes in circulation with the public (it would affect the unemployed notes before it disturbed those actually in use.) The result would be, that the

directors of the bank, uncertain of the extent of the drain, would be obliged instantly to contract their accommodation to the public, they must have recourse to means to direct the drain of gold to the notes in the hands of the public. Before two or three millions could be extracted from the amount of these notes, the pressure upon the reserves of the London bankers would be very great ; these bankers would, to the utmost extent practicable, call in their loans and resolutely refuse further accommodation. No one can doubt the extremity of the pressure which would be inflicted upon the public, and, perhaps, in vain ; probably the bank might not recruit its reserve in time, and, it might happen, that with an amount of six millions of bullion in the issue department, the banking department would be obliged to stop payment. The separation of the two departments divides the means of supporting any drain, while the drains will, in all probability, fall upon one of them only. Mr. Tooke predicted that, in such a case, the Government would be called upon to interfere, and the only interference that could meet the emergency would be, to authorise a temporary transfer of coin from the issuing to the banking department,

that is, to suspend the act.^a These objections seem to apply rather to the proportion in which the bullion of the bank is appropriated to these different purposes, than to the principle of making a division of that fund, setting apart a portion to meet external, and a portion to meet internal drains.

Mr. Tooke does not enter into any consideration of the difficulties which attend the determination of price under a metallic currency, on the supposition that a large sum in sovereigns is voluntarily kept unemployed, that is, kept from coming into comparison with commodities; he, apparently, treats gold money as a commodity having intrinsic value independent of its supply.

Mr. Fullarton,^b like Mr. Tooke, denies that overissues of convertible bank-notes are possible, but, admitting the fact, it is useless he says to attempt to regulate prices through them, because prices do not depend upon them alone; they can act upon prices only in the same manner as other forms of credit. The increased issue of notes can influence prices only by passing into the hands of individuals, and enabling them to compete with

^a Currency Principle, p. 71.

^b On the Regulation of Currencies.

each other on a larger scale in the market for commodities ; it is not the mere existence of the notes which can cause a rise in prices, but the transfers to which they give rise ; it cannot be maintained that a payment which, when made by bank-notes, will cause a rise in prices, will not cause an equal rise if made by a bill of exchange or by a banker's cheque. The whole bank-note circulation of the country might be turned at once into a system of book-credits transferable by cheque, or, on the contrary, all our banking accounts might be commuted for bank-notes, without the course of monetary transactions being essentially disturbed or altered. Unless it can be shown that payments made in one medium affect prices, and that payments made in the other medium do not affect them, the identity in principle between bank-notes and other forms of credit is not impeached, it is not enough to show that bills of exchange and cheques have certain peculiarities, which render them rather less convenient. Bank-notes have, indeed, to some extent, been actually turned into a system of bank-credit. From the great increase of banks, many more transactions than formerly are now effected by cheques, and, notwithstanding the great increase of business, the number of bank-notes is de-

creasing. Nine-tenths of all the transactions of the kingdom are conducted without the intervention of bank-notes ; it is, therefore, useless to attempt to regulate prices by limiting the amount of the notes. The reader must remember that these observations are addressed to the limitation of prices through the notes as currency, not to any effect to be produced by a check given to credit by restraining the employment of notes, which are the most efficient form of credit.

It follows, from Mr. Fullarton's views of the impossibility of prices being affected by any issue of convertible notes, that no unfavourable exchange can be caused by them ; such a state of the exchange must be caused by an unfavourable balance of debt to foreign countries ; it is a question of capital, not currency, Gold is sent to pay for corn when our harvest is bad, because we must purchase that corn with part of our capital, and gold is that capital in its most convenient form. It is impossible, by any direct action on the notes, which form a portion of a mixed currency of gold and notes, so to reduce the price of goods as to cause the merchants to send them, instead of bullion, to a market where there is no demand for them. It is, indeed, possible, by withdrawing the usual facility of discount, at the

commencement of any drain, to give a shock to credit, and force the holders of goods to throw them on the market, and thus lower prices, and the new system is perfectly calculated to ensure* that no unfavourable exchange shall take place, if there be anything like a pressure in the money-market, without producing a crisis ; but it does not follow that the crisis will be lighter because it will be earlier ; a drain of bullion does not commence until the foreign debt has been incurred, and the crisis must be prolonged until that is paid. The reader will, however, consider that it is because the price of commodities is high here that, on some occasions, at least, bullion is exported ; now, an inflation of credit causes high prices, and will, therefore, apparently produce an exportation of bullion, and if that drain of bullion is to be checked, a shock must be given to credit.

But Mr. Fullarton's main difference with the economists of Lord Overstone's school is as to the working of a metallic currency ; he maintains that when the currency is metallic, hoards always exist, from which, and not from the money in circulation, drains of bullion are met, the amount of

* Regulation of Currency, p. 137.

the circulation remaining the same as before the commencement of the drain. It is from these hoards that payments are made, for imported corn on the occurrence of a bad harvest, or when a foreign subsidy is to be paid ; we have no private hoards, but the bullion in the bank of England is a public hoard, and the drains should fall on this to make our currency similar to one purely metallic. Under the new system the hoard is preserved, and the drain is made to fall upon the money in circulation.

Mr. Fullarton with Mr. Tooke advises the keeping of a larger hoard in the bank, and then to leave drains to themselves ; he doubts whether Mr. Tooke's plan of raising the rate of interest will stop a drain, because the public are not dependent on the bank at a time when a foreign debt is contracted, which is a time when the money-market is easy. Drains cure themselves, because the countries to which the gold is sent are soon saturated with it. The bank is powerless to act until the evil has taken root,^a the remedy is then near at hand in the ruin of the speculators, and when that has occurred and credit is shaken, then is the time for the bank to

^a P. 167.

assist those who have still some security to offer, and thus to restore credit as she has frequently done under the old system, but which she now cannot do until the bullion has returned to the country, when it will be too late.

Mr. Fullarton considers that the hoards by absorbing unusual supplies of the precious metals, and again giving them up when a scarcity is felt, preserve them from the continually recurring vicissitudes in value, whether arising from occasional variations in the cost of production or in the proportion of the supply to the demand, which are incident to other commodities. This seems to make the value of gold depend upon the fancy of the hoarders, upon the supply which they choose to permit in the market. Mr. Fullarton supposes that the principle by which they are guided in supplying currency is the rate of interest, that they bring out their money when interest is high, and hoard it again when it is low. He says that the market rate of interest rises in the first instance with every contraction of the medium through whose agency capital is distributed, whether that be money or credit,* a scarcity of money, therefore, raises the rate of interest, and brings out the hoards.

* P. 71.

The connexion between the supply of money as distinguished from capital, and the rate of interest, is one of the most difficult questions connected with our subject, and it will perhaps be better to defer its consideration, until we have seen more of the views of economists upon the point ; at present we may notice some difficulties which lie in the way of Mr. Fullarton's theory. It is, he says, when every thing looks prosperous, when wages are high, prices on the rise, and factories busy, that an additional supply of currency is required, whereas it is chiefly in a more advanced stage of the commercial cycle, when difficulties begin to present themselves, when markets are overstocked, and returns delayed, that interest rises. According to this view, the hoarding principle would supply the additional currency at the very time when it was not required. At such a crisis, credit is what is wanting, or capital, not currency, and even allowing the theory, it would not apply to reserves in the hands of our bankers, which are very different from the hoards properly so called ; the reserves are in the market, and their owners eager to employ them ; the hoards are kept entirely out of sight and unemployed, and their very existence is unknown to the public.

Both Mr. Tooke and Mr. Fullarton maintain that it is not possible for notes which are convertible for gold, and which have always been paid in gold coin, to be less valuable than that metal, because so soon as that fact became known, they would be exchanged for gold; but they do not seem to have fully appreciated Mr. Ricardo's views as to the expansion of the whole currency, both gold and notes, by an overissue of the latter.

Mr. Fullarton maintained that the system of banking in America was so imperfect that no inference could be drawn from it, that notes really convertible for gold were depreciated.

A series of articles on the currency by Mr. Wilson, the editor of the *Economist*, and now financial secretary to the Treasury, appeared in that paper at intervals between 1845 and 1847. These articles were afterwards collected and published under the title of "Capital, Currency, and Banking." Mr. Wilson differs entirely from the school of Mr. Ricardo and Lord Overstone. He maintains, with Dr. Smith and Mr. Tooke, that but a part of the bullion possessed by a country is employed in its internal circulation; that, even in the case of a metallic currency, only that part of the coin which is actually in the hands of the public, and engaged in performing the exchange

of commodities, is to be deemed circulation ; all the coin, or money, or bullion, in the hands of the bankers, seeking an opportunity for profitable investment, is capital. The bankers have no power to influence the amount of coin in circulation—that would depend upon the amount which it was necessary for the public to retain in their own hands ; if trade increased, if commodities rose in price, the public would find that they required to keep a larger portion of their capital in the state of money. Gold has other functions to perform besides those of a circulating medium ; it forms the reserves held by bankers, which are transferred from one to another by the cheques of their customers, but which never get into circulation. Gold is also used, and far more extensively, for the purpose of transmitting capital from one country to another.

Mr. Wilson asserts that a purely metallic currency could not be diminished in the event of an exportation of bullion to meet a bad harvest, because as, according to his views, coin has intrinsic value, an increased quantity of it would be required to circulate the higher priced commodity ; coincident with the drain for the purpose of foreign export, there would be a demand upon

the bankers for more coin for the internal circulation. The country bankers were not to blame for increasing their notes in 1839, when the bank of England reduced the amount of its paper, because there being a deficient harvest at that time, more money was required to circulate it, and if the country banks had not thus increased their issues, the drain on the bank of England for gold to supply the internal circulation would have been much greater. The bank of England, on this occasion, took severe measures to check the issues of the country banks, and succeeded in effecting a reduction in the circulation to the amount of thirteen hundred thousand pounds, in less than three months; but during this period, the drain of gold was more severe than at any time before or after; he admits, that after the high price of corn and the adverse exchange had lasted long enough to reduce the consumption of other commodities, to lessen the demand for manufactures, the amount of employment, and the sums required for payment of wages, the circulation would, of its own accord, become contracted; but a considerable period would elapse before this result could take place.

Mr. Wilson shows, that from 1841 to 1843,

there had been a great influx of bullion into the bank, and yet the circulation in the hands of the public did not increase, notwithstanding all the measures resorted to by the banks to employ their increased means; so far from the bankers having been enabled to extend their note circulation at this period, there is good reason to believe that part of the accumulation of gold was derived from the internal circulation which had been increased during the very high prices, and was contracted again on the depression of trade, which occurred in 1841 and 1842; he implies this fact from the sudden appearance of a great number of worn sovereigns in the hands of the private bankers in London, showing an influx of those coins from the more distant parts of the country.

Convertible notes cannot be issued in excess, they must at all times be equivalent to gold, for if people found their notes of less value than coin, they would exchange them for coin. As to the view that our whole currency may become redundant, as compared with that of other nations, Mr. Wilson says, that the cost of exportation of bullion is a mere trifle, that, in consequence, the exportation would begin immediately that our currency began to become redundant, and thus any perceptible rise of prices on that

account would be prevented. This seems a most important objection to Lord Overstone's views in those cases, in which he supposes the currency to be increased by the issues of the bank, but not in those instances in which the currency is considered to have become redundant by the destruction of a part of our commodities.

These gentlemen consider the exports of bullion, which Lord Overstone attributes to a redundancy of the currency, to be a consequence of speculation, which either causes a high price of goods, prevents their exportation, and requires bullion to be sent in their place, or occasions a greater consumption and importation of foreign goods, which, being unaccompanied by an increase of exportable goods, establishes a balance of debt against us with foreign states, which we have to pay in gold. Their theory of the currency may, perhaps, be shortly stated as follows,—prices, so far as they depend on the currency, are determined, in this country, by a comparison of gold with commodities. Bank-notes and other written instruments, are merely forms of credit employed by merchants to economise the use of gold.

Mr. Hubbard^a rejects Lord Overstone's theory

^a The Currency and the Country.

that changes in the price of commodities are caused by the exports or imports of gold which take place in the course of adjusting the distribution of the precious metals in the world. He maintains that money is an indicator of value ; prices, in England, are measured by the pound sterling—that is, by a certain weight of gold,—and that no diminution of the quantity of gold for the time being in England lowers prices, because gold is the currency of the commercial world ; and the statement that a bale of cloth is worth five ounces of gold conveys the same idea of value to men in London, Paris, Petersburg, and New York. He admits that when a currency has no intrinsic value, a diminution in its quantity causes a fall in prices, as would a destruction of part of all the gold in the world ; but the diminution of money, under consideration, is, he says, merely local ; the cost of procuring gold has not altered, the sum of gold in the market of the world remains unchanged, and, the amount of commodities remaining unchanged, the relative value of gold to commodities must remain unchanged. But would not these local diminutions of money cause local and temporary changes of price ? which is all that Lord Overstone contends for.

Mr. Hubbard supposes^a that the effect of an exportation of gold is, to diminish the available capital of the nation, the balances of merchants at their bankers, the balances of bankers with their money-brokers and the reserve in their tills. The immediate result of this diminution of the amount of unemployed capital will be a rise in the rate of interest, without any interference on the part of the bank; the prices of securities, though not of commodities, will fall here; the merchants and capitalists will be induced to withdraw their capital from foreign loans to lend it here; and the former will sell their goods abroad for cash, and buy on credit, thus reversing their former practice. Here we meet again the question, Does the rate of interest depend upon the quantity of money in the country, or upon the quantity of capital as distinguished from money—that is, of the materials for work, the support of labour, and the like, for the time unemployed?

Subsequently to the passing of the act of 1844, the bank directors abandoned the custom, to which they had formerly adhered, of maintaining for long periods a uniform rate of discount, and lowered

^a P. 42.

and raised their terms in such a manner as they supposed would give them a share of the discount business of the country. In 1845, when their reserve of notes was very large, their rate of discount was as low as two and a-half per cent. It is hardly necessary to remind the reader that the railway mania reached its height about this time, a vast sum had been spent on works actually constructed, a still larger sum was required for works in progress or undertaken, and it seems to be generally admitted that the high wages paid to the workmen, and other kinds of railway expenditure, had caused an unusual consumption, and, consequently, an unusual importation of foreign articles. In this state of affairs, the potato blight made its appearance, and, the harvest being at the same time deficient, importations of food became necessary; the exchanges with America and the continent fell rapidly, and a drain of bullion ensued. When the drain commenced, the stock of bullion in the bank was about sixteen millions, the reserve of notes about nine millions and a-half, and, consequently, the amount of notes circulating with the public about twenty-one millions. By April, 1847, the reserve of notes was reduced to three millions, two mil-

lions and a-half of this reduction taking place between the 27th of March and the 17th of April.

At first the directors of the bank of England took no steps to check the drain beyond a very slight increase in the rate at which they discounted bills, the rate of interest was not raised even to four per cent. until January, but in the end of April it was suddenly raised to five per cent. for the best bills having only a few days to run; the amount of bills admitted for discount being at the same time limited, and renewal of outstanding bills refused. No measure, says Mr. Tooke, of so severe a character had been resorted to by the bank since December, 1795. These proceedings on the part of the bank stopped the drain of bullion, and a large sum, already on board the American packets, was relanded. From this time forward the demand for bullion was very slight, and the exchanges shortly became favourable to this country; nevertheless, the commercial distress continued, the demands upon the bank for discount were very great, and about October many failures occurred. In their efforts to keep up their reserve, the bank directors raised the rate of interest successively to five and a-half, six, seven, eight, and even nine per cent.

(the exchanges, the reader will remember, being all this time favourable to this country); but, notwithstanding these steps, the amount of the reserve of notes continued to decrease, until on the 23rd of October it was not more than two millions; a panic ensued, perhaps almost equal to that of 1825, the principal London bankers, with the exception only of Lord Overstone,* went in a body to Government to represent the evils that must ensue from a continuance of the restriction on the issue of notes; the Government now interfered, and suspended the act of 1844, authorising the bank to issue notes on securities beyond the limit prescribed by that act, but at a minimum interest of eight per cent. The panic was instantly allayed, and it was not found necessary to use the permission thus given to issue notes. After April, the amount of bullion remained at about eight millions; during the whole of the pressure, the amount of notes in the hands of the public varied but little.

It is impossible not to allow that the events which occurred on this occasion, very closely followed the line pointed out by Mr. Tooke and

* Mr. Bevan's evidence before the Commons' Committee of 1848.

Mr. Fullarton, and so complete a fulfilment of their predictions, cannot but incline us to attach considerable importance to their views of the policy of the act.

Enquiries took place before committees of both Houses of Parliament as to the cause of the distress on this occasion, and the extent to which it had been increased or diminished by the act of 1844.

The distress was generally said to have arisen from a diminution of the available capital of the country; even Lord Overstone, whose theory would seem to lead him to maintain, that the gold had been exported because our currency had become redundant in consequence of the destruction of so large a portion of our commodities, attributed the distress "to the heavy demand upon the capital of the country arising from the deficiency of our harvest, and the large amount of provisions suddenly imported in consequence, aggravated by the failure in the supply of raw materials, both cotton and wool, from which our means of making foreign payments were to come, and by the large abstraction of capital from mercantile and trading purposes for the construction of railways."*

* Commons' Report, p. 388.

Lord Overstone, in his examination before these committees, maintained that the act of 1844 had mitigated the crisis of 1847, because, if that act had not been passed, in addition to the difficulties which existed, there would have been such a reduction of the bullion as to occasion serious apprehensions for the convertibility of the notes, and thus cause an internal demand for gold. The pressure would have been considerably more severe, though probably postponed to a later period. Two accidents, he says, gave suddenness to the contracting operation of the act on this occasion, the mismanagement of the directors in the early part of the drain, in increasing their discounts, and the number of failures in the latter part of the year; probably on another occasion these two accidents might not occur, and a gradual contraction of the notes in the hands of the public might take place. Under any circumstances, the act had shewn itself efficient for its intended purpose, which was the effective protection of the convertibility of the bank-note; if the act of 1844 had not been in operation, the bank would probably have continued in the course in which it began, until its bullion had been reduced to two or three millions, and then would have come the convulsion, ren-

dered more severe by fears for the convertibility of the note. Lord Overstone, when pressed upon this point, allowed that even without the act of 1844 the bank would probably have preserved the convertibility of the notes; the bank had large powers, credit would be convulsed, subordinate members of the community would be sacrificed, but the bank would probably be saved. The objection to the old system was, that it did not provide a necessity for making an effort to adjust the exchanges, until the bullion was reduced so low, that no means existed for meeting an internal demand for gold; he maintained that the suspension of the act could hardly be called an interference with its principle, which was, to secure the convertibility of the note. When again pressed as to whether the bank of England had not always preserved the convertibility of its notes, Lord Overstone remarked that the bank had been more than once driven to extreme measures to secure that end, and that the act of 1844 was passed to preserve the public, *non solum a calamitate sed etiam calamitatis metu*. It is a too common delusion to suppose that if the circulation be kept up, and the demands of trade be freely supplied, the difficulty will exhaust itself.

Lord Overstone endeavours to shew, that though the currency was contracted sufficiently to bring back the bullion, the extreme want of money felt by the public on this occasion was not caused by that measure, but by the panic which caused the notes to be hoarded. There were not fewer notes than usual in the hands of the public, if they had chosen to use them. The contraction of the currency which had occurred he, therefore, allows had taken place entirely in the reserve notes, and to support his theory he has to shew that the amount of those notes affects prices; accordingly, he maintains that notes in the reserves of bankers, including those in the till of the bank of England, are the most efficient part of the whole issue in regulating prices.

The greater part of the witnesses examined before these committees do not find fault with the act for having caused a pressure for the purpose of stopping the drain of bullion. They agree that if our notes are to be convertible for gold, means must be taken to preserve a fund of gold, and sacrifices must be made; but they say that the act, by fixing a definite limit to the extent to which the bank may lend its credit, tends to create panics. When the public mind is in an excited state, and people see that the bank has

nearly reached the limit of her power to assist them with her credit, they are seized with a panic; each man is eager to get in time the means of meeting possible demands; and when he has obtained those means, he hoards them. The consequence is so great a scarcity of the ordinary instruments of exchange, that business comes to a dead lock; there is a run upon the bank for notes, not because they are really wanted, but because the people see that there may be a time when it will be impossible to procure them.

The bank directors seem to have approved of the act of 1844. It had relieved them of a considerable part of the responsibility which they had previously had to bear in the management of the circulation; it was, however, generally agreed that they must still keep the state of the circulation in view, and that they were not to carry on their business in the same manner as other bankers; and they were blamed for lowering their rate of discount in the attempt to get their notes into circulation, in accordance with Lord Overstone's theory, that the circulation should be increased when bullion came into the country. The amount, indeed, of discretion required at the hands of the bank directors was

still so great, that many of the witnesses considered that it would be better to leave the whole management to them, and simply to repeal the act.

Lord Overstone's theory, of the effect of the expansions and contractions of the amount of bank-notes on the price of commodities, certainly did not seem to have been admitted by the witnesses before these committees; but they considered that a reduction in the amount of notes would check the means of granting discounts, raise the value of money, and lower the price of securities, by which means gold would be prevented from leaving the country; and Lord Overstone agreed with them in these views.

We must now consider the question, What determines the rate of interest, and, at the same time, what is the difference between capital and money? The usual description of capital, that which is given by Dr. Smith,* is a portion of wealth set apart to be employed in the production of more wealth, and the rate of interest paid for the use of a portion of this capital depends, he says, upon the amount of it for the time being unemployed, and which the owners do not want to employ themselves. Money is

* Ante, p. 56.

only the title-deed by which this amount of wealth is conveyed to the borrower. One regulator of the rate of interest will, therefore, necessarily be the supply of capital, and this regulator may apparently affect the rate of interest to a very great extent ; but we should suppose that its operation would be gradual. Again, if while the supply of capital on loan remains unchanged, there should be an increase in the number of deeds which confer a title to the capital, the owners of those deeds would compete with each other, and would give them to the borrowers at a lower rate. When the quantity of money was increased, the rate of interest would fall ; and, on the other hand, when money was made scarce, the rate of interest would rise. There would be no change in the quantity of capital in either case ; but the borrowers would obtain it on different terms, under the different circumstances. Abundance, or scarcity of money, would therefore, as we have seen allowed by Mr. Hume and Mr. Ricardo,* be another regulator of the rate of interest ; but its effects could not be permanent, because the change in the supply of money would, in a short time, affect the prices of the goods really transferred by the loan, thus, after a

* Ante, pp. 60, 115.

time, rendering it necessary to borrow a larger or a smaller amount than before, and restoring the original proportion between the supply and demand. A third cause of a change in the rate of interest is, a variation in the degree of confidence. This last cause may evidently have powerful effects, but they are not likely to be of long continuance.

Whenever the rate of interest rises, it must be remembered that the price of interest-bearing securities falls.

The operation of any of these three regulators of the rate of interest may cause a movement of bullion, if in any country the rate of interest rises from the scarcity of capital, or from the abundance of money, or from the weak state of credit, bullion will flow into it. Lord Overstone seems inclined to consider the rise of the rate of interest which caused the influx of bullion on this occasion, a consequence of the contraction of the currency produced by the act; the witnesses, however, seem to attribute it chiefly to a change in the state of confidence, but in part to a scarcity of available capital caused by the great expenditure of capital in the construction of the railways.

As to this point, the effect of the railway expenditure in raising the rate of interest, the wit-

nesses seem, on the whole, though with some hesitation, to agree that much of the floating capital of the country had been turned into fixed capital in prosecuting these undertakings, and that a diminution of the capital on loan was a necessary consequence. This question is considered in detail by Mr. Wilson,* he says, capital is of two kinds, fixed capital, such as machinery, which is not consumed in production or replaced out of the current income of the country, and floating capital, which consists of commodities required for every-day consumption, and which is entirely consumed in production and replaced with a profit out of the current incomes of the people; it is this last species of capital which carries on the ordinary business of the country, and if any portion of it be turned from the reproduction of capital of a similar kind to the formation of fixed capital, business must be embarrassed; it is only the savings of the profits of capital which can be so employed without impeding ordinary business.

It would seem then that we must consider the money in the money-market, in ordinary times at least, to represent the amount of the current savings which the owners do not wish to employ,

* Capital, Currency, and Banking, chap. 12.

and of such capital as may be in a state of transfer from one employment to another. The reader will remember that what is called money in the money-market, is not currency of any kind, but the power of lending.

The distinction between money and capital seems to have been very generally felt as a difficulty. Incorrect views upon this subject have, as we have seen, led to much confusion in the inquiry into the phenomena presented by a commercial crisis. We shall find them to be the cause of a large part of what is erroneous in the views of Mr. Attwood, and of those persons who expect great advantage from the extension of the currency which is to be caused by the new gold; and they appear to have given rise to a strange argument sometimes advanced by the supporters of the act of 1844 against its suspension, namely, that it is as impolitic and unfair for the state to make money cheap by suspending the act as to lower the price of corn, or any other commodity. Now, this position is true, if we are to understand that the Government interferes with the price of capital as established by the demand and supply of it; but false, if the interference complained of is merely a restoration of the currency, or of credit, to that state in which they will permit

capital to be dealt in at that price. The operation in this case, far from being a violent interference with the price of a commodity, is analogous to the removal of impediments which prevent the commodity from being sold at its natural price. Capitalists deal in capital, not in currency, and neither they nor those who borrow from them have any right to complain of steps taken by the state to check, if possible, fluctuations in the measure by which all the property of the nation is estimated.

In the course of the next year the rate of interest fell again to its usual amount, a circumstance which seems to show that the rise, which took place at this time, was not caused by the railway expenditure, for that continued, nor by the export of capital, for the capital could hardly have returned to us so soon ; the rise in the rate of interest must apparently have been caused either by the scarcity of money, or by the shock to credit, perhaps by both these causes, but more particularly by the latter.

The Lords' committee reported that the restrictions of the act had materially aggravated the pressure, and had produced the panic which occurred in October ; that it had been shown to them that an enlargement of the issues of the

bank, under a favourable foreign exchange, would frequently be expedient, at times when under the provisions of the act no such enlargement could take place, and even in cases where by the act a compulsory contraction would be enforced; that it appeared probable that such cases would occur from time to time so frequently, that it would be inconsistent with the fixity and order which is, or ought to be, the object of all laws to secure, if the Crown and its advisers were so frequently to set aside the powers of a distinct statute; they reported, therefore, in favour of an amendment of the act by the introduction of a discretionary relaxing power, to be exerted only during the existence of a favourable state of the foreign exchanges. This, the reader will observe, is, in other words saying, when we are sure that gold is coming in, let us anticipate its effect in restoring confidence; it is not, under these circumstances, necessary that we should have an equal value of gold in reserve for every note issued, because we are sure that we soon shall have such a value, and there can be no immediate prospect of an internal drain.

The committee of the House of Commons, however, took a different view, and decided,

though by a small majority only, in favour of the act as it then existed.

The subject was introduced by Mr. Herries, in the House, in 1848, but by that time commercial affairs had become prosperous again, and it excited little interest.

The reader will have remarked that the chief merit now claimed for the act of 1844 is, that it has secured the convertibility of the notes. It would, however, according to Lord Overstone's views, still have all the effect in moderating commercial convulsions, which could be derived from a gradual expansion of the circulation as bullion flowed into the country, because, as he considers notes in the issue department of the bank to be in circulation and to affect prices, the currency would be gradually increased with the bullion.

Mr. Hubbard* estimated that in 1847 we had a balance of foreign payments to make to the amount of twenty millions, and that six millions only of this large amount were discharged by the payment of bullion, the rest being met by purchases, on behalf of foreigners, of our securities, which had fallen in value in consequence of the high rate of interest in this country.

* Letter to Sir C. Wood.

Shortly after the suspension of the act of 1844, Mr. J. S. Mill published his "Principles of Political Economy," which has the reputation of being one of the ablest works that have appeared on the science. Mr. Mill enters at great length upon the subject of the currency. He admits, in general terms, that prices depend upon the quantity of money, but upon the quantity of money only which goes into the market for commodities, and is there actually exchanged against goods; money hoarded does not act on prices, nor money in the coffers of the bank, nor the reserve of private bankers, unless drawn out and actually expended in commodities. He maintains, too, with Mr. Tooke (and this seems a most important position), that, in a state of commerce in which much credit is habitually given, general prices depend much more upon the state of credit than upon the quantity of money, for credit, though it is not a productive power, is a purchasing power; and a purchase by means of credit creates as great a demand for goods, and tends quite as much to raise their price as a purchase of equal amount for ready money. He allows that money is frequently brought into a country and carried out again without affecting prices, acting only on the market for securities or

the money market, and not on that for commodities. He, however, adopts and extends Mr. Ricardo's theory of the distribution of the precious metals amongst nations, and supposes that many exportations and importations of bullion are adjustments of the currency. If the prices of commodities are raised beyond their proper point by an expansion of the currency or of credit, bullion will leave the country, and will not return until the currency is contracted, or a destruction of credit tantamount to such contraction has taken place. Mr. Mill does not explain the manner in which this supposition of the adjustment of the currency by exportation of money is consistent with the theory that the reserves of bankers have no effect on price. It is through its effect on prices that Mr. Ricardo supposes the exportation of bullion to adjust the currency. If, then, exportation take place, as is always the case from the reserves, prices cannot, according to Mr. Mill, be affected, and no reason should exist for the exportation of money rather than of goods.

During a quiescent state of the market, Mr. Mill^a considers that it is not possible for bankers to increase the issue of their notes at will ; but when anything excites more than usual hope of

^a Chapter on the regulation of Currency.

gain, and gives increased briskness to business, persons are disposed to make a more than ordinary use of their credit, and to this desire bankers often unduly administer. If bank-notes be obtained for the purpose of making a speculative purchase, they may be returned into deposit by the persons obtaining them, as stated by Mr. Tooke and Mr. Fullarton, and will not affect prices; but when speculation has proceeded so far as to reach the producers, and they obtain advances of bank-notes, these notes are not returned into deposit, but are employed in the payment of wages, and must increase prices; and this employment of bank-notes must have been powerfully operative upon prices at the time when one and two-pound notes were permitted by law. (The country gentlemen, therefore, according to this view, were not wrong in supposing that the permission granted in 1822, to the country bankers, to continue the issue of small notes, amounted to an extension of the currency.) Again, bank-notes are obtained by speculators, when the tide begins to turn, to enable them to hold on; and this increase of bank-notes must tend to prolong the speculations, to keep up prices, and to increase and prolong the drain of the precious metals for exportation; and the banks are at last compelled to contract their

credit more suddenly and severely, than if they had not been allowed to prop up the speculations by increased advances after the time when the recoil had become inevitable. Mr. Mill agrees, therefore, on this point with Lord Overstone and his school.

Before the passing of the act of 1844, the bank of England reissued the notes paid into it for gold, continued its former amount of discount, prevented the contraction of credit, and the cessation of the drain. The bank of England may still work this mischief to a great extent through her deposits; but banks who commit this error with their deposits, would commit it still more if they were at liberty to make increased loans with their issues, as well as with the deposits. If, says Mr. Mill, the act of 1844 is no obstacle to the advances of banks, before the crisis, why is it found an obstacle when the crisis comes? Evidently it is an obstacle, and if it be blamed for imposing obstacles after the crisis, when facilities are needed, it should be allowed the merit of imposing them when they are required. In this respect the new system is an improvement upon the old, but these advantages, whatever value may be put upon them, are purchased by still greater disadvantages. When the collapse has come there is a great destruction of credit, and advances by the bank at

that time are invaluable, as they do not extend the ordinary amount of floating credit, but merely

- restore it to that state which is requisite to the support of firms of undoubted solvency; this support of credit is consistent with the principle of the act, for that principle is, to draw gold into the country, and to compel a proportionate enlargement of the circulation, but by not suffering the increase to take place until the gold has actually arrived, this object cannot be effected until almost all the losses and failures attendant on the crisis are consummated. This function of banks in filling up the gap made in mercantile credit is so entirely indispensable, that, if the act of 1844 continue unrepealed, its provisions must be suspended, as they were in 1847, in any period of great commercial difficulty, as soon as the crisis has really and completely set in. But there is another objection to the act of 1844, of a more comprehensive nature; the new system is adapted to the case in which the drain of gold originates, in a rise of prices produced by an undue expansion of currency or credit; in such a case it is a fair assumption that the gold exported would be drawn from the currency itself, (Mr. Wilson, we may remember, stated, that no drain has ever gone so far as to touch the currency actually in the hands of

the people,) because such a drain, being in its nature unlimited, will, necessarily, continue as long as currency and credit are undiminished, but it is adapted to no other case, not to a drain of gold caused by a great foreign expenditure on the part of the Government, nor to a large exportation of capital for foreign investment, nor to a failure of the crops in the countries which supply us with the raw produce of our manufactures, nor to failures of our own harvests. In all cases of this nature, Mr. Mill agrees with Mr. Tooke and Mr. Fullarton, the gold, if the currency were metallic, would be taken out of the hoards, and not out of the circulation. Drains of gold of this kind are not interminable in their nature, they are demands for capital, they raise the rate of interest on loanable capital, cause a corresponding fall in securities, and thus cease of themselves by attracting gold for investment; gold may also be brought back in a moderate period by the ordinary operation of commerce.

Mr. Mill is one of those economists who maintain that it is the possible supply of every article which determines its price, but he does not enter upon the difficulties which this view throws in the way of supposing that the reserves of bankers have no effect on prices.



The question of the regulation of the currency was discussed at considerable length by Mr. Macculloch in the article on Money, appended to his edition of Dr. Smith's *Wealth of Nations*. The views of this well-known economist require our attention, because, though they certainly appear to be somewhat confused, this article is, no doubt, much read, and is quoted frequently by Lord Overstone as of indisputable authority.

Mr. Macculloch says, that when, as with us, metallic money may be freely supplied, and consists of pieces of full weight, prices do not depend upon the extent of the currency, but upon the relative cost of producing gold and the commodities for which it is exchanged; it is only when the supply of metallic money is limited, or when the money of the country consists of paper, or of any other article of no intrinsic value, that the value of money can depend upon its quantity. However true this may be, it certainly seems a most extraordinary theory to be put forth by an admirer of Lord Overstone's plan for regulating the currency, as that plan requires us to consider that prices depend on the quantity of money, and to treat money as a sign of value, and not as commodity.

A currency of inconvertible paper money may be kept on a par with a metallic currency simply by limiting its amount, and, if the issue of paper should not be too great, the use of gold for all pecuniary purposes might be dispensed with. When the currency consists of paper money convertible for gold, but no gold is used with it, a very slight depression in the value of paper below gold is sufficient to cause gold to be demanded for it. When the currency consists partly of paper, and partly of gold used along with it, as Mr. Macculloch supposes to be the case in this country, it is clear, he says, that there cannot be any depreciation in the value of the paper as compared with gold, for it may be exchanged for gold, and is as readily received in all payments as gold; but the effect of inordinate issues, though it cannot cause any discrepancy between paper and gold in the home market, is to increase the amount of the whole currency, both paper and gold, and, by rendering it redundant as compared with that of other countries, to depress the exchanges, and then, as notes do not circulate abroad, to cause a drain upon the bank and an exportation of coin. The fact, therefore, of an unfavourable exchange, and of gold being for any considerable time demanded from the bank,

is to be taken as conclusive evidence that the currency is redundant as compared with the currencies of other countries.* (To make the proof conclusive, ought it not to be shown that no other circumstances can affect the exchanges and cause an efflux of gold ?) In most instances, such redundancy is caused by additional quantities of paper or coin having been brought into circulation ; but this is not always the case. A fixed amount of currency may sometimes be in excess and sometimes be deficient, according to the varying state of credit and our commercial relations with foreigners. The state of the exchange is the only unerring test by which to judge whether the currency is or is not at its proper level. He says the directors of the bank of England have often involved themselves in difficulties by their ignorance of this principle. Observing the exchange to fall, and a drain of bullion to begin while the issues were not greater than usual, they concluded that this drain had no connexion with the amount of the paper afloat, and that it would not be stopped by its contraction ; but in this case the currency has still become redundant, not, indeed, by the increased issue of notes, but

* *Wealth of Nations*, by Macculloch, p. 423.

because, from changes in the state of trade and the like, a less quantity of it has become sufficient for the purposes to which it is applied.*

Mr. Macculloch then takes a review of the commercial distresses which have occurred since 1793, and assuming as a point of departure that an adverse exchange and an efflux of bullion are the unerring sign of a redundant currency, he easily arrives at the conclusion that they have all been occasioned by the bankers, who have either directly extended the currency by an issue of notes, or omitted to contract it when rendered redundant by circumstances. Perhaps we may venture to caution the reader who turns to this article not to be too hastily carried away by its clear and confident tone. Mr. Macculloch is, perhaps, distinguished among economists for his love of an abstract theory, and for the length to which he pushes it. The reader will probably remember that he carried the proposition that labour is the source of all value so far, as to maintain that the value added to a cask of wine by being kept to maturity was labour; and that from Mr. Ricardo's theory, that a rise of wages lowers the price of all goods in which much fixed

capital is used, he argued that the superiority of England as a manufacturing country was to be found in the high wages which her manufacturers had to pay and the small profits which they received.

Mr. Macculloch denies that the act of 1844 aggravated the crisis of 1847; he says that crisis was the result of the railway mania and of the Irish famine, that, in consequence of this deficiency, and of the Government having come forward to provide means for its relief, there was an unprecedented importation of all sorts of corn, and the demand for bullion to meet the importation occurring simultaneously with an immense railway expenditure, pecuniary accommodations were obtained with the greatest difficulty. Does not Mr. Macculloch here speak as if the demand were for capital to pay for the corn? We should have expected him to say, the currency becoming very greatly redundant, as compared with that of other countries, in consequence of the loss of our harvest and our potatoes, an unprecedented exportation of coin took place. Mr. Macculloch seems to treat the distress suffered at this period rather lightly, merely stating that a great many mercantile houses, which had been trading upon insufficient capital, failed, that the alarm thereby occa-

sioned was without foundation, and that the interference of Government was to be regretted.*

In another work Mr. Macculloch approves of the conduct of the bank in 1839, in obtaining a supply of gold by selling bills on the continent. The epithet disgraceful is often applied to this transaction, but if we consider the reserve of the bank as comprising the fund which the nation sets apart to adjust its foreign transactions, what degree of discredit can attach to the bank for supplying a temporary deficiency in that fund by credit?

In this year the Revolution occurred, in which Louis Philippe was driven from the throne of France. Shortly after that event cash payments were suspended by the bank of France, by order of the provisional government. The notes remained inconvertible for some years; but no depreciation of their value seems to have taken place.

* P. 507.

CHAPTER VII.

SECOND PERIOD OF A MIXED CURRENCY OF NOTES
AND GOLD CONTINUED.

Discovery of the Gold Fields of California and Australia.—
 Present State of the Social Economy as affected by these
 Events.—Their bearing upon Lord Overstone's Theories.
 —Publications in Anticipation of the Renewal of the Bank
 Charter, by Mr. Tooke, Colonel Torrens, and Mr. Arbuth-
 not.—The Committee of 1857 on the Bank Acts.—Lord
 Overstone maintains that the Price of Securities is affected
 by the Contraction of the Currency though that of Com-
 modities may remain unchanged.—Comparative View of
 the Theories of Lord Overstone and of his Opponents.—
 His Theory correct, but its Effects in Practice obscured
 by the greater Results of Changes in the State of Credit.
 —Estimate of the Act of 1844 considered as acting on
 Credit.—Extent to which Lord Overstone's Views are re-
 ceived in France and America.—Opinions of M. Michel
 Chevalier and of Mr. Bowen.—The recent extraordinary
 Panic in America.—Dangers to which we are exposed
 from the Liability of the American Banks to a run for Gold.
 —Progress of Opinion in the Birmingham School.—Views
 of the effect of extensions of the Currency upon Industry.—
 Mr. Attwood.—Mr. Babbage.—Mr. Bailey.—His Theory
 that Production may be increased by a Mental Stimulus.—
 Views of Mr. Scrope, Mr. Mill, and Mr. Macculloch.—
 To what extent would a limited Currency of Inconvertible
 Notes save us from Commercial Convulsions?

WE now come to events of the very greatest importance in an inquiry into the effects which are produced upon society by variations in the value of money. The existence of a great gold-field in California seems to have been long suspected. Dr. Jameson, in his "Mineralogy," published in 1816, states^a that on the coast of California there is a plain fourteen leagues in extent, covered with an alluvial deposit, in which lumps of gold are dispersed. It would seem that gold must have been found at a former time in considerable quantities in that country, and it is a singular circumstance that such a discovery should not have been prosecuted. In 1848, as is well known, gold was discovered in large quantities on the river Sacramento. Attention was shortly after called to the similarity between the geological formation of that district and of large tracts of land in Australia; and in 1850, rich deposits of gold were found near Bathurst. From that time to the end of the year 1856, 174 millions sterling of gold have been produced from these new sources. The annual production has steadily, though slowly, increased, and in 1856

^a Vol. iii., p. 13.

reached the amount of twenty-nine millions and a half.^a

We must postpone to a future chapter the consideration of the general effects of the new gold on society, at present we need only mention, that of the above quantity of new gold about fifty millions sterling have been retained in the United States, partly in lieu of paper, and that twenty millions have been added to the coin of this country. The rise in prices, however, consequent upon this great addition to our circulation, is, to say the least, so little marked, that its existence is doubted by many of those who have taken part in the discussions on the currency which we have just considered.

In a few years after the discovery of the new gold fields, the bullion in the coffers of the bank of England reached the large amount of twenty-two millions; then came the Russian war, the amount of bullion began to fall, and, notwithstanding the great importations which continually take place, it has been less on the average than before the discovery of the gold fields.^b The rate of interest has been very high for a long time, there have been several

^a Tooke's History of Prices, vol. vi., p. 146.

^b Bank Act Report, p. 3.

periods of considerable pressure, and, in October, 1856, the reserve of the bank of England was reduced to the sum of about two millions and a-half, an amount not very much higher than that which it possessed when the act of 1844 was suspended.

During this period there has, apparently, been no overtrading in this country, no extraordinary issue of notes, and no sudden destruction of our commodities; if we attempt to explain, by Lord Overstone's theory, the difficulty which we feel in retaining our bullion, we must suppose that it is because the currencies of other nations have become too small, and that part of our money is going to them to restore the equilibrium. But we should have thought that exportations of bullion, which were made from any country for this purpose, could not have been felt as causing a pressure, they ought merely to relieve us from a superfluity; we are, therefore, inevitably led to consider that the exportations of bullion which we have such difficulty in restraining, arise from causes totally independent of the currency; they must take place either to transmit capital, to support credit in other countries, or, perhaps, from some mysterious cause connected with a change in the relative values of silver and

gold, in consequence of the great production of the latter metal.

About this time the directors of the bank of England made an application, in accordance with the act of 1844, for permission to issue notes to the extent of two-thirds of the amount of the notes of those private bankers who had failed, or had ceased to issue notes, and the permission was granted.

Under these circumstances we approach the time when the bank charter might again be renewed, and the provisions of the act of 1844 be either modified or confirmed by the legislature; many new publications have appeared on the subject, and it has again been submitted to a parliamentary inquiry. Of the publications we need notice only Mr. Tooke's pamphlet, "On the Bank Charter Act of 1844," and the two bulky and expensive, but valuable volumes which he has added to his History of Prices, "Sir Robert Peel's Act of 1844, Explained and Defended," by Colonel Torrens, and "The Vindication of Sir Robert Peel's Act," by Mr. Arbuthnot, who was his private secretary.

Mr. Tooke abides by the theory contained in his Inquiry into the Currency Principle, and asserts

that, but for the supplies of gold from California and Australia, the Act of 1844 must again have been suspended.

The works of Colonel Torrens and Mr. Arbuthnot are, for the most part, merely restatements of Lord Overstone's theory. Colonel Torrens, however, expressly allows that the leading element of the theory on which the act of 1844 is founded, is, that all the most signal fluctuations of prices are caused, not by an expansion or contraction of the bank-note circulation, but by a redundancy or deficiency in the supply of commodities,* and he ridicules Mr. Tooke for supposing that he refutes the principles of the act of 1844, by showing that prices have not followed the issues of bank notes. This, however, is a most important admission on the part of the advocates of the act of 1844, as it confines the application of their theory to a few cases only, and to those in which they have the greatest practical and theoretical difficulties to encounter. It is in these cases that injury is inflicted on the trading part of the community, without any previous imprudence on their part, and it is here that Colonel Torrens and his friends have to treat our currency as of no intrinsic value, or their theory

* P. 102.

fails, for we have seen,* that if we are to consider our coin as a commodity having intrinsic value, not less, but more of it than usual would be required to circulate our commodities when our harvest was bad. Colonel Torrens, indeed, does not feel this last point a difficulty, he maintains that coin acquires the character of money, not from intrinsic, but imparted qualities, which may be and are given to bank-notes.

Colonel Torrens complains that when the harvest is bad, and, therefore, the quantity of commodities to be circulated diminished, and, according to his views, our currency become redundant, the farmers require advances from the banks to extend their cultivation, and the millers to carry on their transactions at the higher prices; and he blames the bankers for making these advances. He, apparently, supposes that these increased transactions would, but for the action of the banks, have been met by a portion of the currency taken from the circulation (already much reduced by the export of gold) employed in circulating other commodities, thus causing a great fall in the price of exportable articles, in consequence of which they are sent abroad and the gold recovered. The

* Ante, p. 114.

reader must decide how far this plan could be forced upon the public.

With regard to Mr. Mill's remarks on the importance of the function which had been frequently exercised by the bank in filling up the gaps in mercantile credit made by the revulsion of speculation, Colonel Torrens says the act of 1844 secures to the bank the possession of this power, for if the bank keeps a proper amount of reserve during the pressure, no sooner is that at an end than the necessity for so large a reserve ceases, and the bank may afford accommodation out of it. We have seen^a that Lord Overstone considers it almost impossible for bankers to avoid going with the stream. How, then, is it possible for the bank to preserve so large a reserve through a severe pressure, as to be able at once to throw seven or eight millions of notes into the hands of the public, as she did in 1825 ?

Colonel Torrens's observation is less open to objection when he states that the hoards of coin which are found in barbarous countries are of a very different nature from the reserves of precious metals accumulated in the vaults of bankers in civilised states, and that examples drawn from the one state of society are not applicable to the other.

^a Ante, p. 176.

Mr. Arbuthnot's pamphlet is considered to contain a correction of the statistics of Mr. Tooke and Mr. Wilson, in many points in which they are unfavourable to the theory of the supporters of the act of 1844. It is quite beside the scope of this work to enter into an examination of these different statements. We can only observe that he maintains that, in 1825, the amount of the notes of the bank of England exceeded that in circulation in 1821 by rather less than three millions, instead of being slightly reduced, as asserted by his opponents; and he maintains, also, that the issues of the country banks had been increased by about four millions, and had greatly contributed to expand the currency. Now, as to the effect of the issues of the bank of England notes, we have to consider to what extent an addition of three millions can affect prices, and, perhaps, after witnessing the very slight result produced by the addition of twenty millions of gold to our currency, we should not be inclined to attach much importance to it, or to suppose, indeed, that its influence on prices would be perceptible. Even considering the effect of the great increase of the commerce of the country in negating the influence of that large sum of gold, our experience

in this respect certainly tends to make us unwilling to attach much importance to slight errors in statistical details as to the amount of the currency at any time. In estimating the effect of the increased country issues, we must remember that Mr. Thornton and Mr. Ricardo both argue that the issues of the country notes must be in proportion to those of the bank of England, and, therefore, do not of themselves affect prices ; and though Lord Overstone has shown* that, to a certain extent, country bankers will fill up the places of notes which have been withdrawn by the bank of England, he has not proved that country bankers can, by themselves, issue notes to an extent capable of depreciating the currency in a greater degree than it may be depreciated by the central issuer, without causing an exchange between the country and London, which has never been known to occur. These considerations seem to prevent us from attaching any very great importance to Mr. Arbuthnot's statistical corrections.

Mr. Arbuthnot allows that a theoretical conformity between a convertible bank-note circulation and a metallic currency can exist only if

* Ante, p. 187.

bank-notes can be considered money, and if the circulation can be taken to include the reserve of banks. He says^a that bank of England notes are held as reserves by other banks, and constitute the principal means by which payments are made, and by which the balances of book credits are adjusted. He therefore argues that to consider bank-notes held in reserve by private bankers as circulation, and to exclude from consideration those notes which are retained by the bank of England itself for the same purposes, is a contradiction in terms. But Mr. Arbuthnot seems here to assume the whole question, Are the notes retained by the bank of England "for the same purposes," when, for instance, the amount of bullion was very large, and the bank had a reserve of upwards of thirteen millions of notes, were these notes necessary as the means of making her payments and adjusting her book credits? Apparently not. Apparently a large part of them was held because they could not be employed; they seemed to be rejected by the country.

We have now an opportunity of again considering the views of those who are familiar with

^a P. 80.

this subject, in the report of the Bank Act committee of the session of 1857.

But little change of opinion seems to have taken place.

The Governor of the bank allows that the recent instances of pressure had been caused by the demands of the Government during the war, and by other circumstances not connected with an improper extension of trade; but he maintains that while it is necessary for the preservation of the convertibility of the notes that a stock of gold should be held, credit must be checked, for that is the only means by which the exported gold can be recovered. The trade of the country must bear the evil, and that section of the trading community which in general uses the greatest amount of credit, must suffer the greatest loss; he, however, considers that it is for the benefit of the trading world that the gold should be retained, because they would suffer still more were the stock of it allowed to get too low. He does not admit Lord Overstone's theory of the possibility of extending the currency by the issue of convertible notes, allows that neither the bank of England nor private bankers have any power to issue notes at will, and that the bank cannot contract the circulation

in the hands of the people by withholding notes; he states that the bank has but little power over the rate of discount, being obliged to follow the market, and that it is impossible to employ the notes in the reserve when the amount of them is very large.

Mr. Newmarch, who assisted Mr. Tooke in the preparation of the two last volumes of the History of Prices, and may be considered to have appeared before this committee as the representative of that veteran economist, repeats the views of his school; he maintains that the bank is obliged to carry on her business with only half her former reserve, and that the result has been a greater fluctuation in the rate of interest. In answer to the objection that the bank of England can only follow the market rate, he asserts (and experience seems to shew that he is right) that she has in fact great power over the rate of interest by her moral prestige; he thinks that the theory of redundant national currencies supported by Lord Overstone must be put an end to by the electric telegraph, which will instantly inform the merchants of each country of the state of the currency in the other.

Mr. J. S. Mill conceives that the act of 1844 exposes the bank to a double drain, first on the

reserve, and secondly on the bullion. Thus a drain of three millions he considers has now the same effect upon the bank as a drain of six millions had before the act. The drain falls in the first instance on the banking department, which is obliged either to keep as large a reserve as would be kept in both departments together, if the issue department had the power of helping the banking department, or to contract its discounts the moment a small or temporary drain sets in. All the practical men who are examined before the committee treat this idea of a double drain as a delusion; but there can be no doubt that the effect of the act is to compel the bank either to keep a large reserve in notes, or to contract its accommodation at the first appearance of a drain. This, in fact, is allowed by the promoters of the act, and is, indeed, one of their objects.

Mr. Mill, alluding, apparently, to the function of banks in restoring credit after a convulsion, maintains that it is possible, by a system of credit like that in use with us, to have a currency much more steady than a purely metallic one would be. This position did not seem to attract so much of the attention of the committee as its importance appears to merit.

Mr. Hubbard, who since the publication of his letter to Sir C. Wood had been Governor of the bank, repeats his theory that prices of commodities are not perceptibly affected by contractions of the currency on the occasion of a drain, but that the efflux of the bullion as capital, of itself, raises the rate of interest, which reduces the price of interest-bearing securities, and induces the import of capital to be invested in them ; and he supports his view by a table showing that the price of commodities had not, and the rate of interest had, closely followed the variations in the amount of bullion. Mr. Hubbard does not allow that the bank has much power over the rate of interest ; he thinks that rate is automatic, depending upon the amount of bullion in the country, which he considers to represent the unemployed capital of the country.

Mr. Norman again states, that a convertible currency can be depreciated by the issue of notes, not to any great extent, but sufficiently to affect the exchanges ; and he again refers to the case of the American banks in 1837, he states that the amount of notes had then been increased in two years from one hundred millions to about one hundred and fifty millions of dollars ; he was not able to inform the committee to what extent

prices of commodities were raised by this great extension; but he again states the circumstances which we have mentioned, as throwing a degree of confusion over his theory, namely, that after the suspension of cash payments by the banks their notes were at a discount of ten per cent. Mr. Norman limits his remarks on this occasion to a statement, that if the currency of the United States had been purely metallic, it could not have been increased to such an extent; this may, no doubt, be true, because, in a state of commerce where there was no system of credit, even if the increase of commodities required an increase of currency of the same value as before, it could not have been supplied so rapidly as the currency increased on this occasion.

He says that he never maintained that bank-notes could be issued at will to an indefinite, but only to a small extent,* and he mentions that the joint-stock banks had increased our currency, as shown by Mr. Arbuthnot, by about twelve hundred thousand pounds. When told that the bank of England had reduced the circulation in 1837, until the amount of bank-notes hardly exceeded fourteen millions, and yet the drain was not

* P. 297, 307.

stopped, he maintained that there was still a degree of contraction of the currency which would have stopped it.

Lord Overstone not only approved of the act, but speaks in terms which seem to imply that he considered a great part of the prosperity of the country to be due to it. He denies that the new gold has preserved the amount of our bullion reserve, for it did not protect the bullion reserves of other countries. The reader will remember, that the bullion reserves of the Continental states consist of silver, and not of gold.

Lord Overstone allows,* on this occasion, that the prices of commodities are very seldom affected by the fluctuations in the amount of money, but he still maintains that the principle at bottom is, that a reduction in the amount of money lowers the price of goods. When asked if the present system of currency is built upon that assumption, he replies, that he is hardly prepared to say yes, or no, to that question. That the present system of the currency is built upon a very plain and simple principle, namely, that a certain portion of the precious metals is the proper money of this country, and that paper notes are merely a me-

* P. 351.

chanical contrivance to be used for convenience in lieu of that metal. There is an end of the matter ; all the rest are consequences, not causes. We must, however, remember that the reason why a certain portion of the precious metals is the proper money of this country, according to the theory of Lord Overstone and Mr. Ricardo, is, that such portion gives the prices of goods proper for this country, as compared with our neighbours, the principle is, that prices depend upon the amount of the currency, not of the capital of the country. Having thus, apparently, to some extent either given up the theory on which his act is founded, or, at least, allowed the weakness of its influence, so far as the price of commodities is concerned, Lord Overstone endeavours to claim for it the rise in the rate of interest. He wishes it to be understood, that the rise in the rate of interest is caused by the contraction of the currency, and that the price of securities is really influenced by the extent of the currency, under circumstances in which the price of commodities is not affected by it ; now it seems very difficult to conceive that the price of one article should be more affected than that of another, by changes in the currency acting merely through the quantity of money, and not through credit ; and we seem

almost irresistibly drawn to the more obvious conclusion, that the price of securities must be influenced only by the state of confidence, or of the supply of capital on these occasions, in which no corresponding effect is produced in the price of commodities. Again, the allowance that the price of commodities is not readily affected by fluctuations in the amount of the currency, seems to militate strongly against the position which is so fundamental in Lord Overstone's theory, that the high prices of commodities which produce the export of gold are caused by redundancy of the currency.

Lord Overstone maintains, again, that the whole of the notes in reserve in the till of the bank are in circulation, and affect prices. To prove their efficiency in this respect, he draws a picture of the consequences of the destruction of that reserve, showing a complete stoppage to business and a great fall in prices, from which he concludes that it is quite absurd to consider the bank reserve as an inactive part of the circulation. This, however, is not quite a case in point. No one doubts that a part of the notes in the bank is a necessary banking reserve, and that to destroy this portion of it would pro-

duce the effects described by Lord Overstone. But it is alleged that there are many cases, when trade is slack and the bank reserve very large, in which a considerable portion of it might be destroyed without producing these results. Lord Overstone considers that the Government letter suspending the act of 1844 is a great proof of the efficiency of the bank reserve. That letter had the effect of increasing the bank reserve indefinitely, and it was the increase of this part of the currency which checked the panic. It seems as obvious a conclusion that the letter restored confidence, rendering no reserve at all necessary, and did not act in any way through the circulation.

Lord Overstone treats our gold coin as small change, and does not at all seem to feel the force of Mr. Tooke's view, that prices, so far as they depend upon the currency, are, in fact, in this country, determined by the comparison of gold with commodities. We must remember that the amount of gold in circulation in this country is supposed to be at least fifty, possibly seventy, millions sterling—a mass of money which can hardly be called small change; and we must remember that the retail transactions of the country are conducted entirely by it.

Lord Overstone then takes a review of the various cases of monetary pressure which have occurred, all of which he considers to have been more or less connected with the conduct of the banks. In general, he limits his charge against them to a wilful keeping up of the amount of the currency after circumstances have pointed out that if it had been metallic it would have been contracted, or to a neglect to contract their issues when the currency had become redundant from causes connected with commodities or trade ; but he maintains that, in 1825, the banks actually were the prime movers in expanding the currency beyond its previous amount, were the cause of the high prices, and the origin of the speculation which occurred. To prove, however, that the currency was expanded at that time, he has to rely on Mr. Arbutnot's correction of Mr. Tooke's statistics, the importance of which, after our experience of the slight effect produced on prices by twenty millions of the new gold, we have already seen reason to doubt.*

Lord Overstone takes a very high tone in his evidence before this committee, he speaks of the

* Ante p. 263.

difficulty of "hammering truth into the public,"* of his having a great public duty to perform, and of the necessity of speaking plainly; he observes, with respect to the theory, that banks cannot issue notes at will, which was supported by Mr. Wilson, that it is "perilous nonsense" in high places; he says, that his friend Mr. Norman had told him, that when he first stated to the committee that an excessive issue of paper money, although not depreciating the paper money with reference to the coin into which it was convertible, depreciated the whole money of the country, in comparison with that of others, there was great surprise in the committee on the part of some, who seemed to be perfectly astounded, as if a ghost had appeared; and he considers it astonishing that any person should take a prominent part in the discussions of the committee without being perfectly familiar with that principle which he maintains, (supporting his views

* Lord Overstone should not complain of the ignorance of the public in this respect. An account of his views is to be found only in ponderous blue books or in his pamphlets, the original edition of which has now become very scarce, and, though they have been reprinted, under the editorship of Mr. Macculloch, they have not been published, and are to be obtained only by his Lordship's private friends.

with the authority of Mr. Macculloch alone,) is most simple and distinct, and recognized by every writer of any authority on the subject.* Perhaps it is to be regretted that this very difficult subject should have been treated in this manner; we have, however, only to caution our readers not to allow their judgment to be biassed by it; though Lord Overstone's theory may be true in the abstract, it does not appear to be in a position to be treated as self-evident, it seems to be received by a small section only of our economists, none of whom adopt it in the same unqualified manner as his Lordship, he himself seems sometimes almost involuntarily to account for the phenomena which occur, upon principles which are not identical with it. The theory has not made any impression upon practical men, nor is it recognized by many at least of the most eminent of the modern economists of other countries. It certainly seems, from the evidence before this committee, that the opinion that bullion leaves the country and returns to it, without any reference to the state of the currency, is gaining ground with the public.

The evidence of Mr. Chapman, the managing

* Bank Acts Report, p. 407.

partner of the great money-dealing house of Overend and Co., contains some remarkable statements. Mr. Chapman mentions, that, in 1856, when the reserve of the bank was reduced to about two millions and a-half, great anxiety was felt by the money-dealers, and that they would have contracted their business, but from a tacit understanding conveyed to them, that if any real pressure came they should have relief. This communication did not come from any member of Parliament, nor from any person in direct connexion with the Government, or the bank of England, but still from a person of such standing that the witness could not misunderstand that it was desirable that the house should go on with their business, and they did so. This seems very nearly a second suspension of the act. The communication must, evidently, have been so closely touching upon an official one as to remove the anxiety of an acute man of business.

Mr. Chapman states a new reason for not restricting the issues of the bank by the rigid line of an act of Parliament ; he says, there are individual capitalists in this country of such power, that they may, at any time when the bank reserve is low, cause a serious pressure for money, and a great fall in the value of securities by withdraw-

ing a million or two of notes from the circulation, and he says, that this course has actually been adopted;^a that it is true that the withdrawal of the notes would be attended with a temporary loss of the interest, but that would be nothing compared to the advantage which might be gained by the speculation.

Mr. Chapman approves of the effect of the act of 1844 in bringing back the bullion by causing a rise in the rate of interest, and he proposes to leave the amount of the issues of the bank indefinite, but to fix a rate of interest in proportion to the amount of bullion for the time being in the bank, a rise of so much per cent. for every efflux of bullion of a certain amount. He attributes considerable power to the bank of England over the rate of discount. When asked what course he would have pursued had the Government letter suspending the act not been issued, he said he believed there would have been an agreement to make payments in first-class bills, that they would then have had to do in London what is done every day of the week in Manchester; he says^b that if the question

^a Bank Acts Committee, p. 471.

^b Bank Acts Committee, p. 501.

should be whether we should maintain specie payments or the industry of the country, he would drop the former, that if by any possibility we did not maintain our specie payments, it would be an affair with the foreigner for a very short time, and would soon be put right. When asked would not the return to specie payments be a terrible affair, he replied, not at all, it would not be the want of property which made us give up our specie payments. (The reader will remember that he is speaking only of an accidental suspension from an efflux of our bullion from a bad harvest and the like.) The foreigner would trust us just as well, his note would be depreciated for a time, and the exchanges would go down for a time only, but only for a time. Nor would the enormity of the transaction, if a suspension of specie payments occurred, add to the difficulty, as suggested by a member of the committee, for if the rate of interest were raised as proposed by the witness, transactions would have become very limited.

It seemed to be generally allowed on this occasion, that Mr. Tooke's plan of keeping a mass of bullion sufficiently large to withstand drains without protection, would be found impracticable, as there existed no means by which the bank

could be compelled, or perhaps enabled, to keep a sufficient stock of gold.

Every witness before this committee is examined as to the effect of permitting the bank to issue a further sum of two millions of notes on securities instead of bullion, a plan which, it seems to have been supposed, would increase the reserve of the bank without diminishing the security of the notes, as there was no more chance now of the number of the notes ever falling to the low amount of sixteen millions, than there was of its reaching fourteen millions in 1844. The unanimous opinion on this point seems to be, that ultimately the only effect of such a permission would be to diminish the bullion by the sum of two millions, without increasing the amount of the notes; and there seems no possibility of taking an exception to this view, as the average amount of the currency being determined by the value of gold, cannot be altered at will. We must remember, too, that the extension of business, which prevents the amount of notes from falling below sixteen millions, would, in all probability, be attended with an increase of liability to convulsions, which would render a larger reserve of bullion necessary.

It appeared* that the application on the part of the bank of England to issue notes in lieu of those no longer issued by the country banks, which we have already noticed, did not originate with the bank directors, but was made by them, *pro forma*, at the request of the Government, who were in want of bullion for a foreign remittance ; and the effect of the issue of notes by the bank on this occasion was simply the exportation of an amount of bullion equal to that of the notes issued.

The power of the bank of England over the rate of discount was much discussed before the committee, and the opinions upon the subject were very various ; but, upon the whole, it seemed to be allowed that, in periods of pressure, she had considerable power, being looked up to as a guide. There seemed to be some difference of opinion among the bank directors as to whether the circulation should be contracted by refusing accommodation or by raising the rate of interest ; on the whole, the latter plan seemed to be preferred, as less unequal and invidious.

We cannot take leave of this report, which is

not very voluminous, without strongly advising those who wish to acquire a knowledge of these questions to peruse the whole of it carefully. We hope, if these pages have not entirely failed in their object, the reader will be so familiar with the outlines of the subject as to find the task easy and pleasant, as well as profitable.

The reader will now, probably, be anxious to form some decided opinion on the merits of these conflicting views, and on the importance to be attached to them in considering the policy of the act of 1844. Perhaps the best mode of assisting him in this task will be to recapitulate shortly the chief points of each theory, and the difficulties which lie in the way of proving them.

First, as to a metallic currency, the theory on which Lord Overstone and his school, following Mr. Ricardo, take their stand, supposes that the currency consists of all the bullion in the country not used as plate or ornament, and that, in accordance with the ordinary laws of supply and demand, prices depend upon the amount of this currency as compared with that of the commodities to be circulated by it; that any exportation or importation of bullion, being taken from or added to the currency, must lower or raise prices ;

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and that, in like manner, any increase or diminution in the commodities to be circulated, lowers or raises prices, and that, as prices in all the commercial countries of the world must be such as will permit the commodities of the various countries to be interchanged by the merchants on the same terms as if by barter, any deviation of prices from this rate, whether caused by a change in the currency or in the commodities, must stop the national interchange of commodities, and give rise to a movement of bullion ; moreover, all the bullion in the country being currency and necessary to give the proper prices, no importation or exportation of it can be made, unless for the purpose of such an international adjustment of the currency. The difficult points in this theory seem to be, as we have seen, first, that we are obliged to consider money, when consisting of pieces of full weight—that is, of pieces of the valuable commodity bullion—as a mere sign, destitute of intrinsic value. We must assume this, or the theory seems to fail, in many cases, when a portion of the commodities has been destroyed, as, for instance, when the harvest is deficient, a case in which more rather than less money would be required if it exchanged for goods in accordance with its value as a com-

modity^a; and, secondly, that there are cases in which money seems to be exported as the most convenient form of capital, or to support credit in other countries, without any reference to the currency.

Mr. Tooke, Mr. Fullarton, and Mr. Wilson consider money as possessing intrinsic value as a commodity, and exchanging with goods according to that value, and not merely in accordance with the supply of pieces at the time; and they suppose, with Dr. Smith, that exports of bullion are made, quite irrespective of the state of the currency, to discharge balances of international debt, and to pay for commodities, such as corn, for which there is a sudden demand, and that they are taken from a fund which forms no part of the internal circulation nor affects prices, but is set apart for these purposes. This supposition appears natural, but its supporters have a great difficulty to encounter in explaining in what manner the bullion which they say is set apart for this purpose, and has no effect on prices, can escape the influence of the laws of supply and demand, and though existing in the shape of money lying unemployed and known to be avail-

^a Ante p. 114.

able for the making of purchases, is neither applied for that purpose nor affects prices by the possibility of its being so applied. We can hardly allow, as a general principle, that gold can have any value in exchange independent of the quantity of it known to be capable of being brought to market; that men can set an ideal value on gold derived from their knowledge of its average purchasing power, which prevents them from parting with it at a less value, though for long periods it may remain in their hands incapable of exchange at that rate; nor can we conceive that the bullion employed in international payments is in constant use for such purposes, or that it can be so entirely devoted to them as not to be employed at home occasionally, or even, perhaps, that an average supply must be kept ready for these objects. The most that we can allow seems to be that in a state of society where much speculation exists, there will be many occasions in which business is, for the time, so paralysed by past convulsions that money cannot be employed; but this state of affairs could be but temporary, the money would gradually find its way into circulation and affect prices.

It is very difficult to decide between these theories; that of Mr. Tooke appears to be sup-

ported by facts, while that of Lord Overstone is most consistent with the principles of political economy. Perhaps we ought to consider that the latter theory does explain the law of prices which regulates the under-current of events, though that law is much obscured by the influence and results of speculation. It is very important to note, that it is not probable that any change in price arising from the flowing in of bullion from the international adjustments supposed by Lord Overstone's theory, could be very considerable, the only case in which a marked change in price could occur, would be when a great destruction of commodities took place, and even in this case, considering how very little effect has been produced on prices by twenty millions of new gold, we should require the amount of commodities destroyed to be very great indeed, before we could allow that any considerable effect could be produced.

In all cases of a change in prices in accordance with Lord Overstone's views, a metallic currency would immediately begin to adjust itself, bullion flowing in or out of the country as required, and prices would immediately begin to regain their former level.

When they come to consider a currency contain-

ing paper, Lord Overstone supposes that prices depend upon the extent of this mixed currency, as they did on the extent of the metallic one. The mixed currency may, he thinks, be directly increased by the issue of notes, and it may be virtually enlarged by a deficiency of part of the commodities to be circulated. There would be this difference between the metallic and the mixed currency, that the attempts of the mixed currency to readjust itself might be defeated, if the banks were to continue to issue notes as fast as the bullion left the country, and the high prices originally caused by the redundancy of the currency would, therefore, continue much longer than when the currency was metallic, and all the gold might be driven out of the country, thus endangering the convertibility of the notes. The great point in this part of Lord Overstone's theory is, that the whole of the mixed currency may be extended for a considerable period beyond the amount of a metallic currency under the same circumstances, by an issue of notes, or by a destruction of commodities, and the great aim of his plan for the regulation of the currency is, to make the amount of the mixed currency at all times the same as that of the metallic currency would have been.

Mr. Tooke and his friends say, that, as a general principle, a currency of notes, convertible for gold, must always be of the same value, indeed, of the same amount as a metallic currency, because the notes will be exchanged for gold immediately that they lose a part of their value. If the currency were affected by the issue of notes, it would, probably, as here supposed, not be much increased, because the bullion would leave it as fast as the notes were issued; but this reasoning would not apply to a redundancy arising from a destruction of commodities. But, leaving the general case, they maintain, that no issue of our notes can affect prices, as the notes are not for the same amount as the money of the country, nor capable of being used for the same purposes as the gold, by which all retail transactions are conducted and prices, so far as they depend upon the currency, determined. This view reduces our mixed currency in fact to a metallic one, and all our bank-notes to expedients to save money. There seems great force in this argument, for if prices between the retail dealers and their customers are limited by the value of gold, how can they be maintained at a higher rate in the wholesale transactions, in which the

retail dealers purchase their goods;* and though Lord Overstone supposes that gold, as well as paper, is depreciated by the issue of notes, this supposition requires the assumption, which Mr. Tooke's argument seems to negative, that prices are affected by the notes.

It is necessary to Lord Overstone's views, to show that notes, when in the reserve of the bank and which the directors say they cannot employ, are actually in circulation and affect prices; he has also to show, that in all cases when a destruction of commodities takes place, less currency is required; these points are the same as those which he had to meet with respect to a metallic currency, and which present difficulties to his opponents. But, to support his theory of a paper currency, he has also to prove, that bank-notes are money, and that banks have the power of issuing them at will; above all, he has to show that a currency, convertible for gold, can become seriously depreciated in value without affecting the market price of gold bullion, which has never been found to rise on those occasions in which he considered the currency depreciated, and to this end he has to maintain Mr. Ricardo's very subtle theory, that all the

* Ante p. 51.

gold bullion in the country is depreciated along with the coin.

Even if we allow Lord Overstone's theory of a paper currency to be correct, and to be applicable to our currency, there is (except in the very doubtful case of overissues by the banks, unaccompanied by immediate expulsion of gold,) nothing in the introduction of paper into the currency to make the changes of price, which are due to currency according to his view, of greater amount than they would have been under a metallic currency, though they might continue longer; and remembering the small effect produced on prices by the addition of twenty millions of gold to our currency, we shall, perhaps, be disposed to consider that the great changes in price which we witness, are of far too extensive and sudden a character to be accounted for by that theory.

Upon the whole we may perhaps feel inclined to come to the conclusion that we may reject the currency as a regulator of prices, except as to small and gradual changes, and that we must seek the cause and the remedy for great fluctuations of price solely in the more potent influence of credit.

The reader will remember that though Lord Overstone allows that expansions and contrac-

tions of credit greatly influence prices, it is through the agency of the currency only.

Perhaps the truth of this conclusion becomes apparent when we attempt to trace Lord Overstone's theory in the operation of the act of 1844. We do not always find the price of commodities affected, but a great influence exercised on the price of securities. Lord Overstone, indeed, wishes to show that the price of securities is affected only by the changes which his plan has produced in the quantity of money in the country; but here we can hardly agree with him. We are inclined to consider that a change which affects securities, and does not affect commodities, is not a change in the currency, but in the state of confidence, or in the supply of capital; and that it is to the state of credit, either here or in other countries, or to the demand for capital, that the rise in the rate of interest is due, and not to a decrease in the currency.

If our decision upon these conflicting views be correct, we come to the important result, that the merits of the act of 1844 may be considered by practical men, without embarrassing themselves with these abstruse currency theories.

We need here make but a few very brief remarks upon this act. The object of the pro-

moters of it was to moderate, as far as possible, the periodical convulsions which had agitated the commercial world, and to ensure the convertibility of the notes. Let us see how these objects are carried out by the operation of the act on the state of credit. Mr. Thornton^a has described bank-notes as the most efficient form of credit, as strengthening the confidence which is in the mind ; and there can be no doubt that the bank of England may encourage or check speculation by the facility or difficulty with which she lends her credit. Now, the act restrains her power in this respect, fixing a limit to what was before indefinite, and must, therefore, discourage speculation. Whether that be a good or an evil is another question. This restraint upon speculation will tend to prevent those exports of bullion which take place in consequence of the import of an unusually large quantity of foreign goods, which frequently occurs in times of speculation, and which establishes a balance of debt against us. And again, the connexion which the act, on the whole, seems to establish between the amount of bullion in the bank and the rate of discount, must tend to check the export of bullion in those cases in which our harvest is bad, or in which a

^a Ante, p. 86.

great demand for bullion exists amongst our neighbours. On these occasions, the mere increase in the rate of interest tends to preserve our bullion by rendering the export of it less profitable, and, if carried so far as to produce a shock to credit, which it would do if it caused many failures, must be a very powerful means indeed of effecting that object.

It does not seem prudent to rely confidently upon a subsidence of the drain from the cessation of the state of affairs which gave rise to it, or upon the natural effect of the efflux of capital in the shape of bullion in raising the rate of interest, as supposed by Mr. Hubbard : individual hardship may indeed be inflicted to a very great extent ; but if the gold is to be retained, that result cannot be avoided. It is difficult, perhaps, to say whether the amount of this hardship will be greater or less than would have been inflicted in attaining the same end if the act had not been passed ; but perhaps, as the act ensures the preservation at all times of a larger amount of gold than we should otherwise maintain, we must pay more for it.

The weak points of the act seem to be, its liability to create panics by imposing a known rigid limit on the power of the bank to lend her credit, and, as mentioned by Mr. Mill, the impediment

which it places in her way when desirous of restoring confidence, when the convulsion is past, when there is no apparent danger of a continuance of the drain of gold, but the ordinary state of credit no longer exists. Perhaps, also, it may be dangerous to limit the means of the bank in assisting the public with her credit, while individuals possess the power mentioned by Mr. Chapman, of absorbing for a time a large portion of her available credit.

The act has already been once directly suspended; Mr. Chapman's evidence goes far to show that it has subsequently been virtually abrogated, and great authorities predict that it cannot be maintained under circumstances similar to those which occurred on these two occasions.* If this be the case, one effect of the act would be, to connect the Government of the country more closely with the management of the circulating medium, which might prove a greater evil than those which the act was intended to avoid.

Perhaps, before leaving this branch of the subject, we may inquire very briefly in what light it is viewed in other countries. Lord Overstone more than once quotes, in support of his views, the opinions of French and American writers; he

* It has again been suspended, see chapter IX.

refers to M. Guatier, a peer of France, and the deputy governor of the bank of France in 1825, as an authority that the issues of the country banks had depreciated our circulation at that time. M. Guatier says,^a "That in the preceding year a great speculation had arisen, that the banks had made large issues, and that the circulation became too full, and an exportation of gold took place." Now, in this passage there is nothing to show that the banks caused the speculation, or that it was not the high prices arising from it, which caused the large issues of the banks, nor does it imply that the circulation was too full until the speculations began to fail; the whole passage has very much the tone, almost universal amongst economists here, until the appearance of the later volumes of Mr. Tooke's History of Prices, and appears to express views which had been adopted by M. Guatier from the writers of this country without any original inquiry. Lord Overstone mentions with great approbation, a speech of the celebrated American statesman Mr. Webster,^b in which he contends for the establishment of a national bank, and the regulation of the currency in America exactly after the manner proposed

^a Bank Acts Committee, 405.

^b See an abstract from Mr. Webster's Speech on the Sub-Treasury Bill, in Lord Overstone's Pamphlet of 1840.

by Lord Overstone in this country, and he quotes a letter of the under secretary of the treasury of the United States,* written in 1854, maintaining that, taking security for the notes of a bank is not sufficient, that the labouring man, who has such notes in his possession, does not find that the security on which they are based prevents him from losing twenty-five cents, fifty cents, or even seventy-five cents in the dollar. In a circulating medium, says the writer of the letter, we want something more than ultimate security, we want security which is good to-day and will be good to-morrow, and the next day, and for ever thereafter; this security is found in gold and silver, and in these only.

More modern French and American writers, however, do not seem to regard these views with so much approbation; one of the most distinguished of French economists, M. Michel Chevalier, who is familiar with the English writers on the currency, has devoted much attention to the subject, and, though the results of that portion of his labour which is more particularly directed to an examination of the theory of Lord Overstone's school, has, unfortunately, not yet been laid before the public, that part of his work*

* Bank Acts Report, p. 411.

^b La Monnaie, forming the third volume of his Course of Lectures.

which is already published, sufficiently shows what his views must be. M. Chevalier considers intrinsic value to be essential to money, and does not allow that bank-notes are anything more than a species of written forms of credit, nor does he seem at all to recognize the theory that gold bullion is rendered cheap by the increase of the currency; he appears to consider augmentations of the currency as results of great speculations, and that the gold goes abroad because in the course of these speculations the merchants have become indebted to foreign countries; he mentions, that after the great suspension in America, in 1837, the banks were prevented from resuming cash payments by the impossibility of retaining gold in America for some time after the crash, all the gold which came into the country being sent away to the European markets, which were gorged with American commodities. Now this last point seems entirely opposed to the view that the exportation of gold, which brought on the crisis, was necessarily connected with the state of the currency, for we should have supposed that the great destruction of paper, which took place in the case of the numerous banks which were undoubtedly insolvent, would have at once greatly reduced the currency, turned the

exchanges in favour of America, and enabled her to retain her gold, if none but causes connected with the currency caused its exportation.

M. Chevalier adopts in express terms Mr. Tooke's theory of masses of bullion, even in the form of money, existing in all the great commercial nations, which are not properly money, but capital* used for the adjustment of international balances.

For the state of opinion on these points at present in America, we will refer to the work of Mr. Bowen on Political Economy, a writer who is apparently familiar with the labours of European economists, and who is an advocate for the regulation of the currency of his own country. Mr. Bowen adopts the theory that the total amount of currency is determined by the exigencies of international trade, and the necessity of equalizing price throughout the commercial world, but takes no notice of Lord Overstone's theory of the depreciation in the value of bullion by extensions of the currency, apparently because he supposes that the law of international adjustment will, by taking gold out of circulation, prevent any extension of the currency. He agrees

* *La Monnaie*, p. 471.

with Mr. Tooke that banks of issue have no power to extend the currency by convertible notes, and that exports and imports of bullion are not always deductions from or additions to the currency.

It is unnecessary to enter at length into the arguments by which these authors support their views, as they are for the most part those of Mr. Tooke and his school ; what we have stated will suffice to shew that Lord Overstone's views are not more generally adopted abroad than in this country.

We may mention that M. Chevalier considered that gold had become scarce in this country during the great war with France, from the continual export of it in consequence of the peculiar state of our trade with the continent, and that our currency was not materially extended at that time. He agrees with Dr. Smith, that the mines of America did not materially add to the wealth of Europe ; and that though the new market offered by America assisted our progress, that progress would have been very nearly as great had the mines not been so rich ; and he points out that money, though in the nature of fixed capital, differs from it in this respect, that the less a nation has of it the better, and that, up to a certain point of their civilization, nations seek

to increase their money, after which they endeavour to diminish it by supplying its place with credit.

Mr. Bowen calls attention to the illustration afforded, by recent occurrences in California and Australia, of the theory that there is no connection between the quantity of money in a country and the rate of interest. He says that while those two countries were overflowing with metallic money, the rate of interest was enormously high, thus showing that loanable capital was scarce. He also adds that, though no paper money existed in these countries, there occurred in both, but more especially in California, great speculations and commercial convulsions of the most severe character. But we must remember that the state of confidence in those countries was undoubtedly, under the circumstances, very uncertain, which might account for the high rate of interest, at least to some extent.

The state of monetary affairs in America is very different from that which exists in this country, and demands our serious attention. With us, the pressure on the bank during a panic is for notes, that is, for the credit of the bank to support the credit of the applicant; in America, it is for gold, because the applicant doubts the credit of

the bank. A panic in the United States, therefore, will be likely to cause a very great demand for gold here, to support the credit of their banks.

The constitution of the United States seems to render the establishment of a single national bank, like our bank of England, almost impossible ; and American statesmen have, therefore, turned their attention to the improvement of the currency by other means. They have proposed to infuse a larger share of gold into the circulation as a means of diminishing the liability to panics. This was the object of what is called the sub-treasury system, which, in the main, is a plan for carrying on the pecuniary transactions of the state in specie. To increase the security of the notes, several plans have been proposed. The banks have contributed to a fund for the payment of the notes of any of their number which become insolvent. Another plan, which has been extensively followed, requires the banks to give security for the notes which they issue.* Mr. Bowen points out the futility of these plans, and proposes the limitation of notes to sums of £5 and upwards, as with us, which he thinks will place

* See the Laws relating to American Banking in the Appendix to the Lords' Report in 1848.

the paper portion of the currency in the hands of those only who understand its nature, and who are not so liable to panics as the class who hold the bulk of the small notes.

Unless, however, like the bank of Amsterdam, the American banks keep gold for every note issued, they never can be secure. Even our bank of England could not stand a national run for gold. If these panics occur in the United States, and the banks do not suspend specie payments, they must put a great pressure for gold upon us. Under any circumstances, this would be injurious ; but if it should happen that, at the same time, our harvest were bad, we might have to sustain a drain of gold such as has not yet been experienced, and could not, perhaps, be met.

Since Mr. Bowen wrote, fifty millions sterling of gold have been added to the metallic portion of the currency of the United States, yet, at this time, a panic is raging there more severe than that of 1837 ; we must, therefore, give up all hopes of greater security from an introduction of more gold into the currency. The present panic in America presents some most extraordinary phenomena, it is said to have been deliberately caused by an association of individuals attacking a peculiar class of weak securities, at a time of the year

when there is generally some pressure for money, the object being to make a "handsome operation," that is, to buy securities at a low price. (Before we indulge our astonishment at such a proceeding, let us remember Mr. Chapman's evidence as to similar affairs in this country.) Again, it is said, that during the progress of the panic, the depositors of the banks have made a concerted run upon them, with the view of compelling them to suspend specie payments, in the hopes that, when that event happened, the pressure in the money-market would be lightened. They have succeeded in this object, and it is said, that the wished-for result has occurred, that business has been relieved and many failures avoided, both in America and in this country.* It is said, too, that the notes, though no longer payable in gold, have not fallen in value more than two or three per cent. These are events requiring our most serious attention.

We will now retrace our steps for a short time to examine the views of those who object to the convertibility of the notes for gold; we shall find them passing from a vague theory of an unlimited encouragement to the industry and produc-

* *Times* of the 27th October.

tive power of the country, to the more sober aim of avoiding the shock which seems to be so frequently given to credit by the exportation of portions of the commodity which forms its basis.

Mr. Attwood, when examined before the committee on the bank charter in 1832, maintained that an increase of the currency would call every labourer in the kingdom into employment, would give him full wages, and enable him to consume masses of all other commodities annually equivalent to the masses which his own labour had produced, and he proposed to increase the currency until this result was obtained. When pressed, however, to explain in what manner an augmentation of the circulating medium increased the power of production, his arguments are so confused that it is difficult to collect their meaning; they appear to amount merely to a statement that there was not money enough to circulate commodities at the high prices which taxation and fixed burthens of various kinds rendered necessary to repay the producers; his expectation of benefit from the increase of the currency seemed to resolve itself into a relief from fixed burthens.

Very shortly after this expression of his opinions by Mr. Attwood, Mr. Babbage published

his "Economy of Machinery and Manufactures." Far from sharing Mr. Attwood's views, he insists strongly upon the necessity of impressing upon all classes of the community the importance of preventing, as far as possible, any change in the value of the currency. In order to illustrate the effects of a fall in the value of money, he supposes that a widow and two workmen are possessed of £100 a-piece, that the widow invests her £100 in an annuity, that one of the workmen places his money in a savings bank, intending to provide himself with materials and subsistence while making a machine by which he is to gain his future livelihood, and that the other workman buys a similar machine at once, borrowing £100 to assist him in the purchase. Mr. Babbage then supposes money to lose half its value, "prices soon adjust themselves to the new circumstances, and the annuity of the widow, though nominally of the same amount, will, in reality, purchase only half the quantity of the necessaries of life which it did before. The workman who had placed his money in the savings bank, having, perhaps, purchased ten pounds' worth of materials, and expended ten pounds in labour applied to them, now finds himself, by this alteration in the currency, possessed

nominally of eighty pounds, but in reality of a sum which will purchase only half the labour and materials required to finish his machine ; and he can neither complete it, from want of capital, nor dispose of what he has already done, in its unfinished state, for the price it has cost him. In the meantime, the other workman, who had incurred a debt of £100 in order to complete the purchase of his machine, finds that the payments he receives for work done by it have, like all other prices, doubled, in consequence of the depreciation of the currency ; and he has therefore, in fact, obtained his machine for £150. Thus, without any fault or imprudence, and owing to circumstances over which they have no control, the widow is reduced almost to starve ; one workman is obliged to renounce, for several years, his hope of becoming a master ; and another, without any superior industry or skill, but, in fact, from having made, with reference to his circumstances, rather an imprudent bargain, finds himself unexpectedly relieved from half his debt, and the possessor of a valuable source of profit ; whilst the former owner of the machine, if he also has invested the money arising from its sale in the savings bank, finds his property suddenly re-

duced one-half.”* This, Mr. Babbage says, is an extreme case ; but evils of this nature, to a greater or less extent, attend every change in the value of the currency.

Mr. Bailey, in his “ Money and its Vicissitudes in Value,” maintains, that an increase of the currency increases production by the mental stimulus which it applies ; he says, it is allowed, that the opening of a new market will stimulate industry and increase production ; now, on this occasion, no new capital is immediately created by the new market, therefore the increased production must arise from a more efficient employment of the existing capital and labour of the country, which are not always on the full stretch, but may be more productively employed at one time than another ; it is a mistake of political economists to consider a certain quantity of labour and a certain amount of capital as constants of uniform power, and operating with a certain uniform intensity.

A mental stimulus only being thus requisite to increase production, that stimulus may, he says, be given by a mere increase of money. Although

* Economy of Machinery and Manufactures, chap. xiv., p. 130.

prices may ultimately rise, and thus the purchasers may, ultimately, have no greater power of demand than before, yet there may have been a great encouragement to industry in the process, and the temporary stimulus may lead to permanent improvement, and may give rise to ingenious contrivances for facilitating labour, which, without such a stimulus, would never have been invented.

Mr. Bailey allows that this increase in the productive powers of the country would be accompanied by some disadvantage, a partial transfer of property would take place from those who live on rents, pensions, annuities, and interest, and even the workmen might suffer. Masters, in general, do not raise the rate of wages of their own accord, they wait till the rise is asked for, until the competition among themselves has shown it to be necessary, and, frequently, until the workmen refuse to proceed without it; in the meantime, the labourer, in attempting to raise his wages, is frequently idle, nor is it in every species of labour that there is an ultimate adjustment of wages to the reduced value of money, in numerous instances the labourers continue to receive the same weekly stipend. All these irregularities are aggravated by the state of ignorance in which

all parties usually are concerning the vicissitudes which so nearly affect them. Rash speculation, also, and its consequent reaction; are likely to result from an increase of money, and, on the whole, Mr. Bailey concludes, that any alteration in the value of the precious metals, originating on their own side, is to be regarded as an evil, and not a good.

Mr. Bailey's position, that men are not mere machines, and that production is a consequence of mental labour, and that the mere hope of gain may stimulate it, seems to be the strongest argument which is offered in favour of the beneficial effects of an increase of money; we must remember, however, that it is at least doubtful whether great improvements have been made in times of manufacturing prosperity, or to meet a falling demand, and that this stimulus would soon lose its effect.

Mr. P. Scrope, in his "Examination of the Bank Charter Question," says changes in the common standard of value, such as that which had occurred from the failure in the supply of the American mines since the revolution in Mexico and the other mining countries, must be unjust, inasmuch as they disturb the intention of all monetary contracts, giving them by law a dif-

ferent meaning from that which was contemplated by the parties at the time of the engagement. Money is employed in contracts merely as the expression of value in ordinary use, and neither party contemplates a change in the value of the sum specified. It is not credible that the parties to any money contract do contemplate, or are in general even aware of the possibility of any change occurring in the value of money during the term of their bargain. (The reader must feel the truth of these observations.) Mr. Scrope considered the precious metals likely to be so variable in value that they were unfit to form the standard of value, and he proposed that a table should be formed of the values of a great number of commodities, that the average of all these values, which would represent the value of gold estimated in commodities at the time, should be taken as the standard of value, and that any change in the average value should be taken as an indication of a fall or a rise in the value of gold. Suppose the table to contain a hundred heads, each a certain quantity of some commodity, and that the sum of the prices, divided by one hundred, be taken as the pound sterling for the time, then, if at the end of a twelvemonth the mean price had fallen to 19s. 6d., it would be

a sign that the value or purchasing power of the pound sterling had fallen one-fortieth. By changing the numerical amount of the sum specified in any contract, in conformity with this table, its power of purchasing would be kept invariable.

Besides these writers, the effect of a depreciation of the currency on the industry of the country, has been discussed by two of those who are considered great authorities in political economy, Mr. Macculloch and Mr. J. S. Mill. Mr. Macculloch maintains that a depreciation of the currency does promote industry. It diminishes the burthens of the industrious classes, the duties on their goods, the toll-dues, the rents of their shops and warehouses, and the interest of the capital which they have borrowed, at the same time that they obtain an increased price for what they sell. Their condition is improved at the expense of their creditors, of those of the state, of their landlords, and of professional persons and the like. The loss of these persons would be great, but what they lost would be gained by the industrious classes ; and it is the prosperity of the industrious classes that is supposed to be identical with that of the public. The reader may perhaps ask, Why so ? Why should the power to make a fortune be cherished at the expense of the fortune when made ? If it

were shown that production was increased by a depreciation, that there were more commodities called into existence, which must, therefore, confer more enjoyment upon some one, there might be more force in the argument. It is also but a portion, and a small portion, of the industrious classes that would be benefited—that is, the masters, who trade on borrowed capital, not the workmen.

Mr. J. S. Mill says that the whole idea is a delusion, that the stimulus supposed by Mr. Attwood to be given to labourers by an increase of the currency, must have been the expectation of getting more real wealth in exchange for the produce of their labour. This expectation must have been disappointed, because, all prices being supposed to rise equally, no one was better paid for his goods than before. At the periods which Mr. Attwood mistook for times of prosperity, but which were times of speculation, the speculators did not think they were growing rich because the high prices would last, but because they would not last, and because they expected to realise before the crash came.

As to Mr. Hume's view of the effect of an increase of money in stimulating industry, Mr. Mill says, if the first holders of the new money

were to gain more than usual, there must be some persons who would gain less ; the loser would be the seller of those commodities which are slowest to rise in price, who parts with his goods at the old price to purchasers who have already benefited by the new. This seller has obtained for his commodity only the accustomed quantity of money, while there are some things of which that money will no longer purchase so much as before. If he knows what is going on, he will raise his prices, and then the buyer will not have the gain, which is supposed to stimulate his industry ; but if, on the contrary, the seller does not know the state of the case, and only discovers it when he finds, in laying his money out, that it does not go so far, he then obtains less than the ordinary remuneration for his labour and capital, and if the dealer's industry be encouraged, it seems that his must, from the opposite cause, be impaired.

Mr. Mill agrees with Mr. Macculloch, that it is only by diminishing their fixed burthens that a depreciation of the currency can benefit the industrious classes, but this benefit is obtained only at the expense of the rest of the community ; he does not enter into the question whether this transfer of property would, in the abstract, be an

advantage or not, considering that the injustice inflicted by a change of the currency, for the purpose of procuring it, is too manifest to admit of the inquiry.

Mr. Salt and Mr. Muntz were examined before the committee of the House of Commons on commercial distress, in 1847, as the representatives for the time of the Birmingham school, and, although Mr. Salt did repeat Mr. Attwood's favourite theory of issuing paper money until every able-bodied labourer should be employed, there is much in the views expressed by them which seems to merit attention. They complain that the metallic part of the circulation, with the extent of which the credit system of the country is so closely connected, is liable to be exported as a commodity, a circumstance which must bring about a collapse of that system, to the great injury of the mercantile classes. Mr. Muntz says, that he sees no objection to the employment of paper alone, regulated in quantity so as not to be depreciated; but he is so well aware of the strong feeling which exists in the country against an inconvertible paper currency, that he will not venture to recommend it.

Sir Archibald Alison has proposed to issue inconvertible notes for domestic use, and notes con-

vertible for gold, for adjusting foreign payments, and a similar plan was suggested by some of the witnesses before the committee on the Bank Act of last session. Lord Overstone, however, seems to have satisfactorily shown that this plan will not answer ; he says, the convertible and inconvertible notes never could circulate together, the inconvertible notes would be at a discount, it would be great injustice to compel people to take them, and that if people were not compelled to take them, nobody would take them, and there would be an end of them.

We are aware that many persons are so accustomed to connect all sorts of dishonest quackery with the idea of a currency of inconvertible notes, that they will not even entertain the subject ; the evils, however, which arise from a disturbed state of credit are so great, and seem so likely to recur, at short intervals, that, perhaps, we ought to consider how far they would be diminished if the amount of our currency were not liable to vary.

Let us, then, suppose that, at a time when we possessed our fair share of the gold of the world, Government paper was issued until all the gold left the country, and the market price of that metal began to exceed its mint price, and that the issue was carefully and honestly limited to this

amount. This paper would, according to all authority, supply the place of the gold, and no change would be made in prices, or in the distribution of property by the substitution. Those who suggest this scheme, generally suppose that it would at once obviate all the evils which arise from variations in the extent of the currency, and that the only objection which can be made to it, is the difficulty of preserving such a currency from depreciation. The point, however, is by no means so clear as it appears ; we must remember that Lord Overstone and his school maintain, that the great changes which take place in prices through the currency, are, most frequently, caused by variations in the commodities to be circulated, and not in the currency. If, then, our harvest were to be deficient, the fixed currency of inconvertible notes would still, according to this view, become redundant, and the prices of commodities in this country would rise, and would become too high to permit a trade with our neighbours. If a stagnation took place in the international trade, a shock would be given to credit, and if the trade were carried on as usual, a great rate of exchange would arise in favour of our neighbours, which would compensate them for the nominally high prices they would pay, and which would, in

reality, reduce the price of our commodities as much as if we had contracted our currency ; again, if a great destruction of credit took place in a neighbouring country, by which its currency would be contracted, our prices would be too high to permit us to maintain our usual commercial intercourse with it, the mutual trade must cease, or our prices would have to fall, until they bore the usual relation to those of that country, and, as in the former case, they would be corrected by an exchange against us. If, then, Lord Overstone's theory be correct, and the currency be the chief regulator of prices, we should not, by adopting an inconvertible currency of fixed amount, escape all fluctuations in prices, and, in the state of credit, through the currency, we should avoid only those changes which arise from direct extension of the currency ; accordingly, Lord Overstone seems to consider that trade was exposed to more shocks during the suspension of cash payments by the bank, than at any other time.

Still it would seem that an inconvertible currency must preserve us from those shocks to credit which arise from fears for the convertibility of the notes when a large amount of bullion is exported, and it may be said that, even allowing Lord Overstone's views, our system of credit

would not be so much disturbed by a partial cessation of business while our currency was redundant, (which would be but for a short period, till the next harvest or the restoration of confidence in the country of our correspondents), or even by the reduction in the prices of exportable articles through the exchanges, as by a contraction of our currency, which, in any case, would interfere with all our arrangements at home, and if caused by the export of gold to one particular country in distress for that metal, would, in addition, interfere with our transactions with all other nations. If we go further, and, though admitting the theoretical truth of Lord Overstone's views, consider that changes in the relative extent of the currency do not materially affect prices, but that the great variations which we witness in them are due entirely to credit, then we at once get rid of a large portion of the uncertainty of prices which can be alleged against an inconvertible currency.

We should, however, note that such a currency would not have the elasticity of our present system of notes ; it could not easily be made to expand and contract as the state of credit required, and if a convulsion of credit did occur, the bank of England could not discharge that function in filling up the

gap created in commercial credit by over-speculation which Mr. Mill considers so essential on the conclusion of a panic.

Perhaps, notwithstanding Lord Overstone's opinion to the contrary, we may be inclined to admit that, considering the variety of causes which tended to interrupt our commerce during the suspension of cash payments by the bank, we enjoyed, on the whole, a remarkably even flow of commercial prosperity during that period, there having been only two occasions in which commercial distress existed to the extent which it has reached in later times. A severe pressure certainly occurred in 1810, and again in 1814, but on both occasions we had very extraordinary difficulties to encounter; the establishment of the continental system of Napoleon in the one case, and in the other, the change in the channel of trade consequent upon the cessation of so long and so peculiar a war.

The difficulty of establishing an inconvertible currency, in such a manner as would satisfy the public that it could not be arbitrarily extended, is at present so insuperable that it is unnecessary to enlarge further on the subject. We have been induced to call attention to it only by apprehensions of the increasing danger to which our system

of credit seems to be exposed by the rapid spread of a similar system, supported upon a similar basis, throughout the world, and by a conviction, derived from the consideration of the history of our currency during the suspension of cash payments, that such a currency does not, in reality, deserve all the censures which are passed upon it. It is hardly necessary to remind the reader that an inconvertible currency of fixed amount is very far indeed from having any tendency to depreciate the value of money.

CHAPTER VIII.

THE NEW GOLD.

Mr. Tooke's View of the present and future Effects of the New Gold.—He supposes that Prices have not been affected by it.—That the Gold has itself created more Commodities, and forms an Addition to the fixed Capital of the Country.—That Gold is not obtained at a less Cost than formerly.—That Silver has risen in Price only from a Demand in the East.—Examination of Mr. Tooke's Views.—His Error in supposing that an Increase of some Commodities can prevent others from Rising in Price.—Insufficient Proof of the Fact of an Increasing Demand for Silver in the East, by Mr. Tooke, Colonel Sykes and the Editor of the *Economist*.—Silver is dearer valued in Gold and Cheaper valued in Commodities, and is, therefore, exported.—The Export of Silver to the East a Proof of the Fall in the Value of Gold.—Error of Mr. Tooke in supposing that the New Gold is directly Productive of Wealth.—Views of the Editor of the *Economist* on the Effects of the New Gold.—He allows that it has fallen in Value.—The Committee on the Bank Act consider this Point uncertain.—The Fall in the Value of Gold is a Premium on its Exportation to France, and a probable Cause of a High Rate of Interest here.—Adoption of a Silver Standard by Holland and Germany.—Views of French and American Economists on the Subject.—They agree that Gold is Falling in Value.—M. Chevalier's Ar-

gument against allowing the existing Distribution of Property to be disturbed.—What Steps will our Government take.—Argument for and against allowing the Depreciation of the Currency to run its Course.

WE have now to consider the views which have been entertained as to the probable effect of the new gold upon our social economy.

So soon as the fact of a great increase in the production of gold was established, a very great fall in the value of money was anticipated, both by those who had always professed an admiration of cheap money, and by those whose fortunes would be injured by the change. Nine years have now elapsed since the discovery of the gold-fields was announced, and the position of that part of the economy of society which is exposed to their influence is, probably, very different from that expected by either of these parties, and, certainly, in many respects, very extraordinary. Instead of a feeling of abundance of money and easy times for borrowers, as was expected, we have had a higher average rate of interest than has ever been known; but business has been brisk, and, apparently, profitable. Silver has risen about five per cent. in price, and this rise in price has been accompanied with a great exportation of that metal to the East; there has been no very

marked rise in the price of commodities ; but there exists a general feeling that the means of living are dearer.

It is a singular fact in the history of our currency, that none of our great financial authorities came forward, when the anticipations of a fall in the value of gold were so vivid, to, at least, discuss the propriety of preventing a depreciation of the national standard of value. It is, indeed, only now, after this long interval, that any of them have entered at all upon an examination of the probable effects of the present great production of gold.

Mr. Tooke devotes a considerable portion of the concluding volumes of his great work on prices to this subject, and has placed before the public a vast mass of statistical information, which must be allowed to be of very great value, however much we may dissent from the conclusions which he draws from it.

Before entering upon the examination of the effects of the new gold, Mr. Tooke takes a short review of the production of gold and silver during the earlier part of the century, and the resulting effects upon prices ; he states that the annual production of gold had been trebled between 1800 and 1848 ; but the increase in the

annual production of silver had been very trifling. There had been an increase of fifty-eight per cent. in the quantity of gold between the years 1800 and 1848, and, as there had been no increase of prices, nor change in the relative value of gold and silver, he infers that the extension of trade, population, and enterprise in Europe and America, had been so rapid as to absorb the whole of the increase of gold. The reader must remember through what a disturbed state of the currency Mr. Tooke has to trace prices during this period, and how difficult it must be to ascertain that the lowest level of prices has not risen, or, rather, as money is generally allowed to be of less value than it was fifty years ago,* to prove that no part of this loss of value is due to the increase of the precious metals.

Mr. Tooke estimates, that of the one hundred and seventy-four millions of new gold, twenty millions have been absorbed in the gold circulation of Great Britain, sixty millions in that of France, and fifty millions in that of the United States, and he supposes that Australia and California have each absorbed ten millions, Turkey, and the rest of Europe, ten millions, and Brazil,

* See Mr. Rose's Speech, ante, p. 133.

Egypt, and Portugal, the like sum ; of the sixty millions absorbed by France, a large part is in substitution for silver. In the United States the fifty millions of gold have been partly in place of local bank-notes and partly of the gold coin of foreign countries. In Great Britain the twenty millions of gold coinage are to be regarded as representing an enlarged requirement for metallic circulation, as the result of enlarged transactions, and the same observation applies to Australia, California, Brazil, Egypt, and Portugal. The metallic circulation of the leading portions of the commercial world has been increased about thirty per cent. The reader will remember that, according to Dr. Smith's views, this addition to our currency must have enlarged, by one-third, that part of the circulation of the country which is employed in conducting the circulation between the dealer and the consumer, that is, in the retail trade, the payment of wages, and the like ; a mode of employing an increase of the currency which we have seen men of all views on the subject agree in considering the most efficacious in raising prices.

For some time after the discovery of the new gold-fields, Mr. Tooke expected that a fall would take place in the value of money, that if the high

prices which had prevailed had not been originally caused by the influx of gold, the recoil from them would be impeded by it. There were good grounds for believing, that when the precious metals from the new sources should have become diffused and disseminated, in the shape of income, of rents, of salaries and wages, a higher permanent level of prices would be established. But, afterwards, from observation of facts, he adopted the opinion that there was no probability of such effects being produced by the new gold. On considering the actual range of prices from 1851 to 1856, he finds that colonial produce scarcely rose at all, that provisions and butcher's meat rose from thirty to forty per cent., that raw materials rose from thirty to sixty per cent., that the finer cotton fabrics fell in price, that bricks advanced about twelve per cent. ; but that, in all cases where a marked rise of prices occurred, it could be accounted for, in the first instance, at least, by purely mercantile reasons relating to supply and demand. These reasons are, as to provisions and butcher's meat, the seasons, the war, deficient hay-crops, a destructive murrain, absorption in Ireland, excessive reductions of stock, from 1848 to 1852, and extra consumption of butcher's meat by the lower classes ; and, in

the case of raw materials, the war, speculations, failures of crops, strikes among workmen, and the like.*

The cause of the failure of the new gold to affect prices, Mr. Tooke thinks, is to be found in the fact, that a great quantity of commodities has been called into existence by free trade, railways, and, more especially, by the new gold itself; an additional amount of currency has, therefore, been required to circulate commodities at their former prices.

The distribution of gold, he says, through the extended demand for commodities, commencing with the labourers who picked up the gold, gradually set in motion an increased number of labourers, and increased amounts of capital to supply the requirements, not only of the population of the gold countries, but of the population of the countries producing the goods consumed by them. These requirements were satisfied entirely out of an addition to the wealth of the world, called into existence for that special purpose. The rise of two or three hundred per cent. which took place in the prices of all kinds of goods in Australia, was speedily corrected, almost in a single

* Vol. vi., p. 458; vol. v., p. 654.

day, by the resources available for increased production in those countries which produced the goods. After the first excitement, the increased production has continued, because the effective demand, in the form of new gold, has continued in the gold countries. Year by year the circle in which there is an increased demand for commodities is enlarged, the area in which increased incomes are expended is wider in each succeeding month.

Mr. Tooke, therefore, maintains that the effect of the gold discoveries has been to create large additions of real wealth, that in the gold countries the population has been increased three or four-fold, houses have been erected, waste lands reclaimed, railways constructed, schools and universities founded, and, more conspicuous than all, an enormous foreign trade established; that in those countries to which the gold has been sent in exchange for commodities, the same effects have been produced as in the gold countries, but in a less degree. The gold has led to improvements in the means of production, to the accumulation of capital out of the larger incomes of capitalists and labourers, and has diminished the pressure of destitute persons. These results, he says, are very different from a barren addition of

a considerable percentage to the existing metallic circulation, or any barren increase in the prices of commodities merely from such an addition.

Mr. Tooke allows that these conclusions are opposed to generally received theoretical views of the effect of a great addition to the stock of metallic money; but he says that facts show that an increase of one-third in the amount of money has not produced any marked effect on prices, and that, in the abstract theory, the time which will be required before any effect can be produced by the increase of money, and the important changes which may occur in the meantime (alluding, probably, to the increase of commodities), have been neglected. He supports his view by stating that an increase of six hundred per cent. in the stock of the precious metals on the discovery of America produced a rise in prices of only two hundred per cent., (Dr. Smith estimates the rise at four hundred per cent.,) and that a very long period elapsed before any effect at all was produced on prices.

In answer to the objection that a mere increase of gold is in itself no permanent addition to the wealth of the world, except as affording the means of an increase of plate and ornaments, Mr. Tooke repeats and extends Dr. Smith's comparison of

money to a highway. He says, an inadequate stock of money is a narrow and unsound road; an extension of money makes this road smoother and broader, and imparts almost the same impulse to production as the conversion of a common highway into a railway; and to increase the stock of money year by year is much the same thing as to construct, year by year, a new and additional network of railways.* An addition to the stock of money is an addition to the fixed capital of the society, and exerts over production an influence of the same beneficial kind as improved harbours, roads, or manufactories. Mr. Tooke supposes that such an impetus has not been given to production by forced extensions of paper currencies, only because such currencies are confined to their own country, while gold and silver constitute the circulating medium of all nations. (Should not this only make a difference in the amount of the effect produced, not negative it entirely?)

As to the question of the supposed fall in the value of gold because the cost of producing it has been diminished, Mr. Tooke doubts this latter fact. He says that, considering the expense of conveying the labourers to those distant places, the cost of tools and of living, and the value of

* Vol. iv., p. 216.

the commodities with which the gold has been purchased of the diggers, no larger amount than previously has been procured by the expenditure of the same amount of labour and capital. Does not this view go to the full extent of maintaining that it is almost impossible to reduce the cost of obtaining gold? All the expenses which Mr. Tooke enumerates must have been incurred in the attempt to procure gold from the poorer gold fields. Surely the gold procured when the field was richer must have borne a larger proportion to them. Again, if the cost of production be not less, how are we to account for the increase in the quantity obtained?

Mr. Tooke allows that the first influx of gold lowered the rate of interest, because the gold was then carried to the bank and formed a part of its reserve, and an addition to the amount of money seeking investment. But though subsequently ninety millions of gold have been imported, this effect has ceased, because they were carried off at once to meet deficient harvests, for war expenditure, and above all by the rapid absorption of capital in new enterprises, and in extended branches of trade, which have maintained the requirements for capital at a limit which seems to be continually exceeding the supply.

As to the rate of interest for the future, he considers that the spread of free trade, railways, and electric telegraphs, but above all the great field for enterprise opened in California and Australia by the gold, will require so much capital, that the rate of interest will in all probability be high for a considerable period : this, he says, will preserve the owners of loanable capital from loss, should the quantity of new gold cause a rise in prices.

With regard to the effect of the discovery of the rich silver-mines of America in the sixteenth century, Mr. Tooke states that before the influx of American silver there had been a marked fall in prices, consequent upon a stationary or perhaps declining stock of silver.* That the rise in prices which followed that influx was arrested about 1640, because the annual increase was entirely absorbed in replacing the wear and tear of the enormous mass of silver accumulated by that time, and in satisfying the requirements of the extension of trade, discovery, production, and population. He adds, we have the fullest warrant for concluding that any partial inconvenience that might ensue from the effects of the American supplies, was compensated and repaid (but not perhaps to the sufferers) a

* Vol. vi., p. 413.

hundred-fold by the activity, expansion, and vigour which they impressed for more than a generation upon every enterprise and every art which dignifies human life or increases human happiness. He devotes a section of the appendix to his last volume to "the historical evidence illustrative of the rapid extension of enterprise and trade between 1560 and 1600," in which the fact of such an extension is clearly established; but nothing whatever is mentioned, beyond coincidence in point of time, which connects it with the great increase which then took place in the production of silver, and he takes no notice of the question whether this extension of our trade was caused by the opening of the new market or by the depreciation in the value of money. He states that in like manner the effects of the new gold have been as beneficent as they are mighty. The reader will note how readily Mr. Tooke allows that a stationary or perhaps declining stock of silver lowered prices, though he does not allow an opposite effect to a decided increase of gold. Why did not the scarcity of silver, according to his views, check production, diminish the amount of commodities to be circulated, and keep up prices?

It follows from Mr. Tooke's views, and he so

states the fact, that the great production of gold has caused no change in the relative values of that metal and silver, and he attributes the rise which has taken place in the value of the latter metal as compared with gold, to the springing up of a great demand for silver in the East, a demand which he supposes to have been caused chiefly by the sudden extension of the consumption of the teas and silks of China in England and America.

Mr. Tooke's views have not yet been considered by economists, and we can look only to general principles for assistance in estimating them. The review which we have just taken of the opinions of many eminent persons as to the power of extensions of the currency upon prices, has, certainly, not prepared us to admit readily that an addition of twenty millions to the metallic portion of our currency should produce no effect whatever upon prices; we have seen very great results attributed to an addition of two or three millions of notes to the circulation.

Without entering into any examination of Mr. Tooke's statistics, we may admit the very great probability of a considerable increase in the amount of our coin, and he allows that there has been a rise in the price of many articles; the

question is, has any part of this rise been caused by the increase of coin? This question Mr. Tooke answers, though not very confidently, in the negative. We cannot follow him in detail in his statement of the causes which he thinks have affected the prices of such articles as colonial produce, butcher's meat, and the like. The reader is aware of the great difficulty of ascertaining the causes of variations in the price of such articles with sufficient accuracy to warrant an assertion, that no part of those variations is due to the influence of the new gold, and he will remember, that Mr. Tooke was unable to discover any connexion between the state of the currency and the price of such articles during the suspension of cash payments by the bank of England. As silver has, allowedly, not increased in quantity, variations in its price seem the best test of any change in the value of gold, and we shall examine the grounds of Mr. Tooke's opinion, that the rise in the price of silver, which commenced shortly after the discovery of the gold-fields, and has continued until the present time, is not due to the new gold.

As the production of gold has very greatly increased, while that of silver has remained stationary, Mr. Tooke would readily allow that silver

must, under the circumstances, exchange for more gold than before, if he did not suppose that a fresh employment had been found for the gold in circulating new commodities, a circumstance which he seems to think would prevent more gold than before from being offered for the same amount of silver; but, as silver has not, and commodities have increased in quantity, an ounce of silver would now exchange for more commodities than before, and, as the currency can make no alteration in the terms upon which commodities exchange by barter, at the same time and place; an ounce of silver must now exchange for more gold money, as more gold money would be required to purchase the increased amount of commodities, for which the ounce of silver would now exchange by way of barter; a change would, therefore, take place in the relative values of the two metals, that is, in the price of silver, though all other commodities had increased in proportion to the increase in the gold. Mr. Tooke seems to take the common but erroneous view of the effect of changes in the currency upon prices, he seems to suppose, that if the currency be extended, and a part only of the commodities to be circulated be also ex-

tended, but to such a degree as to leave the whole mass of the currency still in the same proportion to the whole mass of commodities as before, there will be no change in prices.

Assuming, then, that there is nothing in the alleged increase of commodities to prevent the new gold from producing an effect upon the price of silver, we must attribute the rise which has taken place in the price of that metal to that source, unless we can find some other at least equally good explanation of the fact. Now, the explanation usually given by those who deny that the gold has produced any change in prices is, a great demand for silver in the East. Mr. Tooke maintains that silver has become really dearer in the East; and the same view is taken by Colonel Sykes, by the editor of the *Economist*, and, we may add, apparently, by the public in general. To account for the export to China, it is supposed that a great and sudden demand has sprung up since 1851, in England and America, for silk and tea, while there is no corresponding increase in the demand in China for our commodities; and it is said that the rebellion in that country has given rise to a great desire to obtain silver for the purpose of hoarding. The exportation to India is accounted for in a somewhat similar manner.

Colonel Sykes says, the industry of India appears to be so active, its products so much in demand, and its foreign wants comparatively so limited, that a large part of its produce must be paid for in bullion.* Indian railways are another alleged cause of the drain of silver to that country, and the same fact is sometimes accounted for by the rapid increase of its internal prosperity, which, according to the *Economist*, requires and enables each of the inhabitants to keep two or three more rupees in his pocket.

Without entering at all into the statistics by which these gentlemen attempt to sustain their views, we may notice some circumstances which seem to throw doubt upon them. In the first place, the increase in the demand for tea and silk seems too sudden to be caused by the natural progress of England and America ; again, if silver has really become dear in China, as supposed, and we make a sacrifice to get the silver which we send there, the real price of the goods which we purchase with it must be higher, or the profit of the Chinese trade must fall ; neither of these results is alleged to have taken place, on the contrary, there is a large consumption of the articles

* Statistical Journal, vol. xix., p. 114.

of that trade, a fact which points to a low real price, such as would result from the power to purchase them with cheap silver. The demand for hoarding in China may be increased by the rebellion, but, perhaps, not the power to purchase silver. Indian railways may require some silver, but it is not likely that remittances for them will be made to any extent in that metal; these last items also appear too small to have much influence upon the question. Colonel Sykes's view of the result of increased productive power in India upon her exports, is entirely at variance with both general theory and experience; it is hardly conceivable that a nation can increase in productive power, and yet afford a diminishing demand for the products of the industry of other countries; finally, as to the necessity of a larger metallic currency in India, because of the increased prosperity of that country, assuming that great national prosperity does require more metallic money, and that India has really increased in prosperity, the question is, whether her advance in wealth is so much greater than that of Europe and the United States as to enable her to tear the silver out of the hands of those nations. We know that this is not the case. Let the reader

compare these theories with the simple hypothesis that silver goes to the East because it shares some part of the fall which has taken place in the value of gold, an hypothesis which is consistent with theory and supported by facts. If gold were of less value than silver, it would take the place of silver in those continental currencies in which it exchanges by law for a certain fixed quantity of silver, thus a large supply of displaced silver would be thrown on the market, the value of that metal would fall to some extent, as compared with commodities, and it would naturally be sent to India and China, in preference to goods, our imports from those countries would cost us less than before, and a greater consumption of them would take place. Now, all these supposed events have occurred, and, therefore, the export of silver to the East is, in fact, a strong evidence of a fall in the value of gold. We must remember, too, that the great apparent demand for silver for the East began in 1851, the exact epoch at which the new mines of gold came into full operation.

We now proceed to consider the reasons alleged by Mr. Tooke for a great increase in commodities since the epoch of the gold discoveries.

Mr. Tooke, we have seen, considers the new

gold as possessing in itself a power of production because money is fixed capital, and therefore the gold which increases this capital must cause an increase of the productive power of the world ; and he illustrates this view by comparing an inadequate currency to a narrow and unsound road, and an increase of that currency to the conversion of the road into a railway. Now, what is meant by the term inadequate when applied to a currency? If the nature of the commodity chosen as the medium of circulation be such, that a portion of it which would exchange for the quantity of other commodities usually required in retail transactions, be not too small to form a convenient coin, or if a proper subsidiary coinage be provided for small change, and if any country has its fair share of the whole stock of such a commodity which exists in the world, how can its currency be said to be inadequate? How can that currency be made more adequate? It would seem that we have only to carry out Mr. Tooke's simile, and we shall see the error ; after distant places are once connected by railways, a new network of them will not facilitate intercourse, will not be any real addition to the wealth of the country, but a waste of capital and an encumbrance. The

reader will remember that we are not saying that the introduction of a system of credit will not facilitate exchanges and increase production, but only that an increase of a metallic currency will not have that effect.

Though money is called fixed capital by Dr. Smith and other economists, it evidently is of a different nature from other kinds of fixed capital; it is not directly productive of wealth, like a machine; it is, as Dr. Smith says, neither a material to work upon, nor a tool to work with, nor can it sustain labourers; it must be exchanged for other things before it can be productive; it is, as we have seen, only the deed which confers a title to productive capital.* Mr. Tooke would be very unwilling to allow that paper money is directly productive of wealth; and it is only because metallic money can be exchanged with other nations for the materials of productive capital, that he distinguishes it from paper money. We may safely say that the theory which treats an increase of metallic money as a direct source of productive power, because it adds to the fixed capital of the world, cannot be maintained; most economists, indeed, consider a reduction

* Ante, p. 43.

of that part of the national fixed capital as a step towards increase of wealth.* But the new gold may have placed in the power of those nations who are most advanced in productive skill a portion of the capital of their less favoured neighbours; production may have been increased by free trade, and the facility of transport afforded by railways; and, according to Mr. Bailey's view, a more efficient application of existing capital may have been caused by the mental stimulus given by the opening of a new market. From these causes a considerable increase of some commodities may have taken place, which may have tended to prevent the new gold from affecting the prices of many articles. The reader will, however, note the great difference between treating, as Mr. Tooke does, the new gold as the great cause of increased production, and attributing that fact to free trade, railways, and the like. If the gold be the direct cause of the increased production, that production would keep on *pari passu* with the increase of gold; if free trade be the cause, then the production may be much less than sufficient to counteract the effects of the gold.

* La Monnaie, p. 368.

Mr. Tooke states, that the new gold has, latterly, had no effect upon the rate of interest, because it has been carried off by the rapid absorption of capital required by new enterprises, which have maintained the requirements for capital above the supply of it. Now, what is the meaning of gold being absorbed as capital? If the new gold is not directly productive, but must be exchanged for other commodities which are so, then it is still in the nature of a currency; not, indeed, of any particular nation, but of the whole world, and no more of it can be required than before, unless the prices of those particular goods which are used as directly productive capital have risen, or unless there has been a general increase of them; as Mr. Tooke does not allow that prices have risen, he must maintain that there has been a yearly increase of commodities employed as capital to such an extent, that more than twenty-nine additional millions of gold are yearly required to distribute them; but what evidence have we of such an enormous annual increase in the ingredients of productive capital? It is a much simpler hypothesis to suppose that the gold never comes into comparison with them at all, but goes abroad, partly to be exchanged for silver,

and partly in consequence of the laws which regulate the distribution of the precious metals.

In estimating the effect of the new gold on prices, Mr. Tooke omits all mention of the tendency in modern times to economise the use of coin by the employment of paper and by banking operations, he even supposes that the new gold may have taken the place of some of the paper. It is possible that there may, at this moment, be an unusual degree of distrust as to paper money; but this feeling can be but of short duration, the tendency, in the long run, must be to spare coin by the use of paper, and to spare money of all kinds by the use of banks. Mr. Norman, writing in 1838, says, that in consequence of the extension of the economising principle, it is probable that England possesses less coin than she did fifty years ago, and that France has less than before the Revolution.* There is yet room for extending and perfecting this system of economising coin in this country, and it is quite in its infancy in France and many other parts of the Continent; the probability, certainly, seems to be in favour of a fall in the value of gold from this cause.

* Remarks upon Currency and Banking. p. 14.

There is one most important consequence of Mr. Tooke's theory, to which the reader's attention must be strongly directed. As according to Mr. Tooke there has been no fall in the value of money, all the beneficent effects which he attributes to the new gold are entirely independent of any depreciation in the value of money, and would be just as surely enjoyed by the nation were the standard changed to silver.

The probable effects of the new gold have been discussed from time to time in the *Economist*, the paper which has been already mentioned as being under the editorship of Mr. Wilson, and which therefore we may suppose expresses his views at least to some extent; they differ considerably from those of Mr. Tooke. The editor of the *Economist* allows that silver has risen in value as compared with gold, that a change in the relative values of gold and silver has been the cause of the substitution of gold for silver in the currency of France, that the new employment thus found for gold, and the great supply of silver thus thrown on the market, have delayed the full effect of the new gold in producing a change in their relative values; that this displacement of silver must be nearly at an end, and a much more rapid and marked advance may be shortly ex-

pected to take place in the value of silver in relation to gold.* It should follow from this view that the new gold has raised the price of commodities, for if it has raised the price of silver, notwithstanding the great supply of that metal thrown on the market by the substitution of gold for it in the continental currencies, it must have raised the price of commodities in general at least in an equal degree, even allowing that there has been an extraordinary increase in the supply of commodities; the editor of the *Economist*, however, though he does not venture to deny that there has been some rise in prices, seems very unwilling to enlarge upon this point.

The effects of the new gold attracted but very little of the attention of the committee of 1857 on the Bank Act. In general the effect of the gold in raising prices seemed to be considered obscure and undecided, rather than altogether denied. Mr. Mill, however, allowed that the gold discoveries had raised the price of silver, that is, that the value of gold had fallen as compared with silver, and that the gold had displaced silver in the coinage of France; he assumes that silver retains its former value as compared with

* Supplement of January 24, 1857.

commodities, but that notwithstanding it goes to the East in greater quantities than before, because the productive powers of the East have largely increased, and the practice of hoarding so prevalent in that quarter of the world, prevents any loss in the value of silver from the continual influx of it.

The evidence of the Governor of the bank of England, Mr. Weguelin, seems to be the most important that was given upon this subject. He appeared to consider it a very extraordinary circumstance that the amount of bullion held by the bank should on the average have been less than it had usually been before the great discoveries of gold. He accounts for this fact by the drain of gold for the war, and since the conclusion of peace, by the great demand for silver for the East, caused principally by the failure of the silk crop in Europe. He attaches slight importance to the operations of the bank of France to obtain gold; and when asked whether the change in the currency of France had not caused an additional demand for gold for France, he merely replies, undoubtedly there has been a change going on of the currency of France into gold for the purpose of obtaining silver to ship to the East.

Now, it seems that if we admit that in conse-

quence of the great production of gold that metal has fallen in value as compared with silver, that is, that a given weight of it will now purchase fewer commodities than the weight of silver for which that given quantity formerly exchanged, and for which it would still exchange in France, it must be profitable to send gold to France to be exchanged for silver without any reference to the demand for that metal for the East. Gold keeps its old value in France. Is not the difference between the new and the old value of gold clearly a premium on its export to France? Now, this premium of course affects all the gold in this country, our ordinary stock as well as the fresh arrivals, and would naturally reduce that stock when the fresh arrivals are not sufficient to supply the outgoing current; our stock would apparently be reduced until gold became so valuable here that it could no longer be exported with a profit. To keep our usual stock of gold we should be obliged to apply a pressure equal to the premium upon its exportation; and it seems probable that the new gold has, in fact, cost our merchants a rise in the rate of discount of one or two per cent. for the last few years.

We have already mentioned that none of our eminent economists have come forward to advo-

cate the maintenance of a steady standard of value. Many of our statesmen have shown the same indifference, while others have even gone the length of attributing the prosperity which we have enjoyed of late years to the fall in the value of money caused by the new gold. The mercantile press has declared loudly in favour of letting the value of money fall to the utmost—has treated all propositions for preserving steadiness in the national measure of value as tampering with the currency—has drawn most extravagant pictures of the stimulus to the production of wealth to be given by the abundance of money—has endeavoured to prove to the classes who would suffer, that they would be compensated by their share of the universal prosperity; and finally, as if mistrusting its own arguments, has taken every opportunity to lull people's anxiety by endeavouring to show that after all there will be no rise in prices from the new gold, or to reconcile them to their fate by pointing out that there is no remedy, that silver will fall in value even more than gold.

Our neighbours on the Continent received the announcement of these remarkable discoveries in a different spirit; from the first they have considered them of the greatest importance, and have

expressed great solicitude for the maintenance of the standard of value. Immediately that the fact of a great increase in the production of gold was established, the Government of Holland, a nation justly renowned, says M. Chevalier, for its foresight and probity, discarded gold from its currency ; they may, says the same author, have been rather hasty in passing this law, but, in a matter of this nature, it is better to be in advance of events than to let them pass us.

Shortly afterwards, the Government of France appointed a commission to examine into the questions connected with the simultaneous use of the precious metals, gold and silver, as a circulating medium. This commission reported, that the fall which had then occurred in the value of gold, was temporary, that it was not possible, with the existing knowledge of facts, to form correct opinions on the subject, and that there was, at that moment, no ground for a modification of their monetary system. At this time, owing to the reported discovery in California of rich mines of quicksilver, the metal so extensively used in procuring silver from the ore, and to accounts of the vast quantity of poor silver ore in Mexico which could now be profitably worked, there existed a belief that silver

was in danger of falling in value to a greater degree than gold. The events and experience of nine years seem to have produced the conviction that this will not be the case ; all Germany has recently adopted a silver standard, and the statesmen of that country finding, it is said, that since the demonetization of gold in Holland, that metal has ceased to be used there as coin at its market value in silver, and wishing to secure the convenience of gold money, but anticipating a rapid fall in its value, have, as suggested by M. Chevalier, declared that the gold coin shall pass current at a given rate, as measured in silver, and have provided that this rate should be adjusted to the price of silver half yearly.

Another committee has recently been appointed in France, to examine into the monetary condition of the country, and is now pursuing its labours.

A writer in the *Revue Contemporaine* of May, 1857, M. E. Levasseur, considers that a part of the present high prices of many articles is to be traced to the new gold ; he supposes, that in France and England these high prices have been profitable to the employers of industry, but that they have been injurious to all those who live upon fixed incomes, or by salaries or wages of

any kind, as the advance in price always precedes the advance in wages. M. Levasseur, however, supposes, like Mr. Tooke, that the effect of the new gold will be beneficial, because it will create new commodities and increase the fixed capital of the world.

M. Michel Chevalier, who has paid much attention to this question, has lately been engaged in reconsidering it, and the result of his labours has just appeared in the *Revue des Deux Mondes*. M. Chevalier has examined again the probabilities of a fall in the value of gold, has satisfied himself that a part of the present high prices is due to that cause, and that the fall in the value of gold will be much more rapid as soon as the displacement of silver in France is completed. He shows that this fall will not be uniform in its progress, but will proceed by leaps; and thus the measure of value will not only be subject to continual depreciation, but will be rendered uncertain. He has also, after an enquiry into the monetary laws of France, come to the very important conclusion that, although gold is, practically, treated as the standard of value, and although there may be some obscurity in the wording of the law, silver is, in fact, the monetary unit in that country, and that the state

cannot, without injustice, pay its creditors in gold except at the market value of that metal in silver. There is, indeed, he says, no court before which the state can be cited to fulfil its liabilities; but he appeals to the future history of the period, as a tribunal which every dignified government would respect.

M. Chevalier then proceeds to consider the evils and advantages which will flow from a continuous fall in the value of money. As might have been expected from his eminence as an economist, he is not influenced by visions of increased production from the new gold as capital; he points out the losses which would be inflicted on those who depend upon fixed sums of money; he allows that these persons form, even in France, a very numerous class, comprising those for whom society is most bound to provide; he notices the necessity which will exist for continually augmenting the amount of taxation, and the difficulty which all who live by salaries or wages of any kind, will have in obtaining an increase of their incomes proportionate to the fall in the value of money; he allows that debtors will gain, but he maintains that changes which affect injuriously a vast mass of interests, even if a considerable number of the members of the society were to be

gainers by them, are great evils. Society has in such cases to pass through a revolution, to sustain a dangerous trial, particularly when the working classes are among the sufferers.

As to the equity of allowing the fall in the value of money to run its course, M. Chevalier, like many other economists, seems to have had his attention so much occupied by the magnitude of the debts which have been incurred by government, that he in some measure confines his consideration of the equity of the case to transactions between the government and its creditors, without noticing the question whether the state can for its own advantage equitably neglect one of its most important duties, that of providing a proper standard of value for the use of the whole community. With this view he seems to think that, though the French government cannot pay their creditors in gold, yet that our government are in the abstract justified in doing so; however, even in this case he agrees with the author of these pages in thinking that the distribution of property in this country is so intricate, the mass of interests to suffer so very large, and the frugal and prudent habits which would be weakened if their rewards were lessened or taken away, so important to the welfare of the state, that he says Parliament may

well hesitate before it allows itself to be seduced into permitting such an uprooting of society in the hope of escaping part of our national debt. We trust our readers will carefully peruse this very valuable essay, which they will find in the numbers of the *Revue des Deux Mondes* for October and November, 1857, and which has since been published in a separate form. They must remember that M. Chevalier, far from being inclined to undervalue the advantages of increased production and more efficient circulation of commodities, is the great advocate of free trade in France.

In America, as we might, perhaps, have expected, the prospect of a depreciation of the currency is received with great favour. Mr. Bowen anticipates a great fall in the value of both gold and silver, he takes no undecided view of the results of the depreciation; he maintains that a considerable decline in the value of money, if arising from natural causes, is a blessing, and its great merit, in his opinion, seems to be, that it will slowly correct the inequality in the distribution of wealth, which he considers the great misfortune of the most prosperous nations.

As, upon the whole, no prudent person can feel satisfied that there is no probability of a fall in the value of money, it is time to ask what is

to be done under the circumstances, what course will the statesmen of this country take, will they allow the national standard of value to sink gradually for an indefinite period, or will they adopt the means which are at hand for preserving it invariable? Let us consider what may be said in favour of each plan. In the first place, the institution of a measure of value, by which the distribution of the property of the society can be regulated, is, confessedly, a necessity in a civilized community, men must have such a measure by which to arrange their transactions. Again, every one would allow that the chief point to be attended to in the choice of this measure, should be invariability, and it would seem to follow as a matter of course, that when the commodity chosen for this purpose had lost a portion of the quality which originally fitted it for its office, another commodity, if any one could be found, possessing the requisite qualities in a superior degree, should be at once substituted for it, before any change in the distribution of the property of the society had taken place; all this seems so plain, that it is almost a waste of time to state it. But it is urged by some persons, that great advantages will be derived from allowing the standard of value to be depreciated, and that the govern-

ment has entered into a contract by which they are bound to allow to a portion of the nation the advantages which they expect to reap from a fall in the value of gold ; we must, therefore, inquire into the force of these arguments.

Let us, in the first place, refer to authority, to the denial by Dr. Smith and other eminent economists, that any advantage is gained by an increase of money ; to the strong language in which Mr. Huskisson denounced the ruinous policy of permitting a progressive depreciation of the currency ; to Mr. Babbage's account of its unequal effects ; to the conclusion at which Mr. Bailey arrived, that, even allowing for the mental stimulus given to production by the fall in the value of money, (a stimulus which would not be given in the present case, as its effects would have been forestalled by the new market offered by the gold as a commodity,) a general rise in prices originating in a change of the measure of value was not desirable ; to Mr. Scrope's position that it is incredible that the parties to any money contract contemplate, or are even aware of, the probability of any change in the value of money, and that in consequence every change in the standard of value from natural causes must be unjust ; to Mr. Mill, who treats the whole idea of increased production as

a delusion, and maintains that whatever benefit is gained by one class is lost by the rest of the community; and to the view entertained by M. Chevalier of the perils with which society is menaced by the change.

Against these views we have to set the vague theories of Mr. Attwood and his school, which resolve themselves into a relief of a part of the community from burthens which must be borne by somebody else, and Mr. Macculloch's strange dictum that the prosperity of the whole country is measured by the prosperity of the class who wish to borrow. As to the views of the mercantile press, and of those statesmen who attribute our present prosperity to the depreciation of the currency caused by the new gold, they are too vague to be put in competition with these authorities, they do not shew us any more distinctly than Mr. Attwood, the manner in which a depreciation of the currency does advance the general prosperity, though it may promote that of the class for whom they write and speak, nor do they distinguish between the effects, which all allow, arise from the new gold as a commodity, and those supposed to be derived from a depreciation of the currency.

As we have already considered at length the



opinions of Mr. Tooke, we need not recur to them. The view taken of these events in America cannot surprise us ; according to Mr. Bowen, position in society is so ephemeral in that country, that it is in the ordinary course of things, that the son of an Irish coachman should become governor of a state, and the grandson of a millionaire should sweep a crossing.* It is hardly necessary to observe that, with us, though such changes do occur, they are the exception, not the rule ; our society is in a very different state, a large section of the community is in a position to which there is no counterpart in America, and which exposes them to be seriously injured by any permanent change in the value of money. Mr. Bowen is, also, probably wrong in supposing that the depreciation would diminish the colossal fortunes of the great capitalists for the benefit of the poorer classes. Lord Macaulay mentions that, during the existence of the depreciated currency, in the reign of William the Third, the bankers thrived amazingly. Mr. Chapman says, that all intelligent money-dealers like times of excitement, and we have seen that those economists who suppose that any advantage is to arise

* Bowen, Political Economy, p. 123.

from a depreciation of the currency, allow that the larger part will fall to the share of the employers of labour, and not to the labourers. Even the funds, the great object of attack on this occasion, are not possessed by millionaires, but by trustees of family settlements, by public institutions, and the like ; this fact is so well known that it was allowed in the evidence before the Bank Acts Committee of last session, to be the chief cause why the price of Consols did not fall in proportion to the rise in the rate of discount.

If we look to the past, we can find no case in which a depreciation of the currency was, in itself, an undoubted benefit to the nation ; there has, indeed, been only one certain instance of a depreciation in the value of money of any extent, that which occurred in the time of Elizabeth, and here, as we have seen, the probability is, that the depreciation of the currency rather interfered with the good effects produced by the opening of the new market. There were no signs of increased prosperity during the low value of money and extension of the currency in the time of William the Third. During the revolutionary war with France, we have seen that our currency was too slightly depreciated to have produced, according

to any theory, the marvellous prosperity sometimes attributed to it, while here, again, when the currency was slightly depreciated, a trace occurs of the evil so striking in the time of Elizabeth, namely, a fall in the relative condition of the labouring classes.

A slight consideration will be sufficient to convince us that no pledge has been given to adhere to a gold standard. We have seen that silver was originally the standard of value in this country, and that gold came by degrees to be the standard, coming into general use from its greater conveniency, silver not being formally deprived of its character as the standard of value until 1816. The resumption of cash payments in 1819, which is the chief fact put forward in support of this view, was merely a return to the legal standard; it no more implied that the standard should never be changed, than the reformation of the coinage in the reign of William the Third was a pledge that our standard should always be silver. It cannot be maintained that gold should be retained as the standard, if it continue for a long time to fall very much indeed in value. To what extent, then, are we bound to allow it to fall? Is there a certain amount of hardship which we may inflict for the general

good ? or is the general good itself affected if the unsteadiness in the standard become too great ? It seems needless to pursue the subject any farther, the fallacy is too apparent.

There appears, indeed, to be one great feature of weakness in the arguments of those writers who expect great advantages from the depreciation of the currency. They all confine their praises of a fall in the value of money to those cases in which it is brought about by natural causes ; they deprecate any legislative depreciation. Now, why should they limit their theory in this manner ? If a continuous fall in the value of money be for the general advantage, it should be secured for the future by a legislative enactment. There could be no injustice in a law which was not retrospective in its effects, and which was for the general good. Unless they are prepared to maintain their theory to this extent, they must give it up entirely ; they cannot, however, venture to propose that for the future the value of money should be made to fall in the manner which they suppose it will now do from the new gold, because they are aware that the absurdity of a proposal to select so unsteady a measure of value would be too apparent, and that people would not submit to such a law ; and here

is the great merit in their eyes of the natural source of the depreciation, that it is not understood by those who are to suffer, and in consequence will be endured. The price of silver is now about five per cent. higher than it used to be. We have the strongest reason to believe that the value of gold must have fallen still more when compared with commodities in general. Money, then, has lost at least five per cent. of its power of purchasing, and to that extent a perpetual income tax has fallen upon all those persons whose incomes are fixed—a tax, as said, we may remember, by Mr. Jefferson of the depreciation of the American paper, the most oppressive of all, because the most unequal of all. We have, too, every reason to suppose that this tax will after a short time rapidly increase. It seems clear that a tax like this could not be openly imposed on such uncertain prospects of general advantage as those put forth by the admirers of the depreciation; and it certainly seems iniquitous to take advantage of the ignorance and want of familiarity with business, of that part of the community which is exposed to suffer, to inflict it upon them; their ignorance of affairs appears to give them the clearest right to the attention and protection of the state.

It might have happened that, as in the time of Elizabeth, both the precious metals had fallen in value ; in this case, perhaps, the evil would have been inevitable ; we could not apparently have expected the Government to adopt a plan so different from any which had been tried as that of the tabular standard proposed by Mr. Scrope ; but in the present instance no difficulty of this kind occurs, whatever might have been the opinions at first entertained of an approaching fall in the value of silver, that idea is now abandoned ; it is now, perhaps, even necessary to shew that silver is not dearer than it was as compared with commodities. The Government undoubtedly have it in their power, by following the example of Holland and Germany, to preserve the distribution of property as it exists without making our money more inconvenient, and without depriving the country of any of the advantages which the new gold would give us as a commodity. They are placed in a position in which they cannot escape the responsibility of deciding these very important questions ; for if they allow things to take their course, they tacitly adopt the views of the advocates of the depreciation, and on such grounds as they have put forward are answerable for all the misery that may be occasioned by it.

Notwithstanding, however, the obvious common sense and common justice of preserving the standard of value as invariable as possible in this country, in which from the nature of things the distribution of property is very intricate, we are aware that the influence of party feeling and the expectation of individual gain are so powerful in obscuring the plainest subject, that we have little hope of seeing any steps in this direction taken by our Government, unless we can awaken from their apathy those who are exposed to suffer. We can, indeed, cite our statesmen before that tribunal to which M. Chevalier has appealed ; and we think that the spirit in which the prospect of a progressive depreciation of the currency has been received in this country, will not form a very creditable page in its history ; but unfortunately the judgments of this tribunal, though very severe, come too late to interfere with the results of the conduct which they condemn, and we must address ourselves to those who will be injured ; we must ask our readers to consider what effect will be produced upon their own position, and that of their families and of the public institutions with which they may be connected, if the money of the country should in the course of the next twenty years lose ten or

or perhaps twenty per cent. of its purchasing power, reminding them that the depreciation of the currency which may produce these results is not a thing of the past, but yet to come; and that if they see reason to apprehend any injury to their property, they have but to come forward to express their unwillingness to submit to such a loss, and they would escape it. Their weakness lies in their apathy; and this is the sole source of the strength of their opponents.

The author of these pages feels very strongly on this subject, believing that a very great amount of suffering will be inflicted upon a very large numerical portion of the community in the pursuit of a shadow, for what good can result from a failure in one of the most important institutions of civilized society, and he cannot conclude the present work without appealing to the economists of this country, at least to give the question of the probable depreciation of the currency an unprejudiced consideration. It is, perhaps, consistent with the views of Mr. Tooke and his school, readily to admit suppositions, which account for no effect being produced on prices by the addition of very large sums to our currency; but Lord Overstone and his school of economists, and the financiers formed by Sir Robert Peel,

must, we should suppose, take a very different view ; we have seen that they considered an increase of two or three millions of bank-notes quite sufficient to raise prices very considerably, they must, therefore, feel satisfied that there is a great probability of a continuous fall in the value of our money for a considerable period, they must know how extensive are the interests which would be exposed to suffer, and they must be aware of the fallacious nature of the arguments brought forward in favour of permitting the depreciation to continue. May we not then venture to hope that they will no longer consider the subject unworthy of their attention.

CHAPTER IX.

THE CRISIS OF 1857.

Phenomena of the Crisis.—Lord Overstone's Theory might be applied to explain them.—He considers that the Suspension of the Act depreciated the Currency.—Objections to this View.—Occurrences at Hamburgh a Proof of the Importance of Mr. Mill's Theory that a Mixed Currency may be rendered less unsteady than a Metallic one.—Error of those who complain of the Public for expecting Assistance from the Bank during the Pressure.—Are the Reproaches on American Banking merited?—Impossibility of altering the modern System of Business to render the Act of 1844 effective.—Difficulties as to the Exercise of a Power of Suspending the Act.—Important Lesson afforded by recent Events as to the Effect of the New Gold.—Strong Claims of those who would suffer from it to the Attention of the Government.

SINCE the former portion of this work was placed in the hands of the printer, another commercial crisis has occurred, exceeding in intensity that of 1847, and the Bank Act of 1844 has again been suspended. A considerable exportation of gold to the continent was in progress, and the bank rate of discount was five-and-a-half per cent., when in the month of September news

reached us of the commencement of monetary difficulties in America. Early in October, the bank having sustained a great diminution of her reserve and bullion, raised the rate of discount to six per cent., and after the interval of a few days only, to seven and eight per cent. About the middle of October, Messrs. J. Monteith and Co., Macdonald and Co., Wallace and Co. failed in Glasgow. In the following week some relief seems to have been experienced from the expectation that the suspension of cash payments in America would check the demand for gold, and on the 14th of October the reserve of the bank was still above four millions; but shortly afterwards the money-market was unfavourably affected by the embarrassments of the Borough Bank at Liverpool and of the Western Bank at Glasgow. The week succeeding these events was one of great excitement in commercial circles; the bank raised the rate of discount to nine per cent. on the 5th of November, and on the 10th of that month to ten per cent. This stopped the drain of gold to the Continent and to America, but several failures occurred in London early in November; and at Sheffield the house of Naylor, Vickers, and Co. stopped payment; shortly afterwards the firm of Dennistoun and Co., of Glasgow,

failed for about two millions. A run took place on the Scotch and Irish banks, and the Western Bank and the City of Glasgow Bank stopped payment. Two millions of sovereigns were taken from the bank to meet this run ; the great money-dealing house of Sanderson, Sandeman, and Co. and many other London houses failed ; and notwithstanding large sales of stock by the bank, and the high rate of discount, her reserve and bullion continued to decrease, until, on Wednesday, the 11th of November, 1857, the reserve was less than one million. Early on the morning of Thursday funded property to the amount of five hundred thousand pounds was sold by the Scotch and country banks, with the view of drawing gold and notes from the bank ; and one firm is said to have applied for, and to have obtained discounts to the amount of seven hundred and fifty thousand pounds.* Under these circumstances the Government suspended the act of 1844 by a letter to the bank directors, authorizing them to exceed the limit fixed by that act for their issues on securities.

As the bank raised the rate of discount, the discount houses and the London joint-stock banks continued to increase the rate of interest allowed by them for deposits.

* This account is taken chiefly from the *Economist*.

The rate of discount was raised on the Continent, but not quite to the same extent as in this country; nor, except at Hamburgh and in the north of Europe, has the commercial distress been so great abroad as with us.

This suspension of the act was not quite so successful in checking the pressure as that of 1847. The bank directors exceeded the authorised limit of their issues by about two millions, and many failures, including those of two large joint-stock banks, took place after the suspension of the act.

Of the houses which have failed, those of Monteith and Co., Macdonald and Co., Wallace and Co., of Glasgow, had no doubt traded in the most reckless manner, and their assets were nominal; the joint-stock banks, too, which failed, seem to have been extremely imprudent. But the great houses of Dennistoun and Co., Naylor, Vickers, and Co., Sandeman and Co., profess, apparently with truth, to be able to pay in full; and the dividends expected in the case of the greater number of the other houses which have failed, are by no means remarkably small.

The Western and City of Glasgow banks had issued notes to the extent of eight hundred thousand pounds, but they held specie for about half

this amount, as did the New York banks for half the amount of the notes issued by them.

At Hamburg, where, as we have seen, all the notes are represented by coin, or, in other words, the currency is entirely metallic, the convulsion has been greater than in any other country, and has amounted, perhaps, to a more complete break up of commercial relations than has ever before been witnessed.

The events of this crisis are full of instruction, and when investigated, as they will be, by a Parliamentary committee, ought to be sufficient, at last, to settle many of these questions on satisfactory grounds, and we must look forward eagerly to the report of this committee; meanwhile we will consider, very briefly, some of the views which have already been called forth on this occasion.

Although it is now said by some of the supporters of the act of 1844 that there has been great overtrading, there certainly does not appear to have been anything resembling the culminating point of one of those cycles of trade described by Lord Overstone;^a some unsound trading must always exist, but there has been no inflation of credit in this country beyond that of

^a Ante, p. 176.

other countries, which could make our prices disproportionately high when compared with theirs, and, on that account, cause an exportation of bullion ; the comparative soundness of our trade has been the common topic, Lord Overstone has, himself, acknowledged the fact before the Bank Act Committee of 1857, claiming, indeed, a portion, at least, of our prosperity for the act of 1844. Nor has there been any expansion of our bank-notes, nor any destruction of our commodities, none of the circumstances hitherto alleged as the causes of a redundant currency have occurred on this occasion. Still the supporters of the act of 1844 might apply their theory, they might maintain that the unsatisfactory state of credit in the continental nations, paralysing the power of their currencies, and the same causes in America, aggravated by a great destruction of her paper, had so greatly reduced the circulating medium of those countries, that our currency had become redundant, as compared with theirs, and that it must be reduced before our commercial intercourse with them could be resumed on such terms as would prevent our bullion from leaving us. They may point to the act as partially effecting its object, and they may say that it did not succeed, only from its incompleteness ; had there been a central issuer only, and no Scotch

or country banks issuing notes, the internal drain could not have arisen; perhaps, without this drain, the panic would not have taken place, and, at any rate, the act has given us a large sum of bullion with which to meet this panic, which, without its guardianship, might have come upon us with empty coffers.

The supporters of the act do not, however, on the present occasion, make much reference to their theory of the currency, they blame the Government interference chiefly as altering the value of money.

Lord Overstone says^a that gold is the money of England; that every man may bring into the country or take out of it what money he pleases; that we depend upon free trade for our supply of money as well as of provisions; and he blames the Government for interfering with this free trade in money. He asks, What would be thought of a Government which, when the supply of provisions fell short, undertook to satisfy all demands at a given price?—a course which, he says, is analogous to that which had been taken by the Government with respect to money by their suspension of the act of 1844. Upon this point we must remind the reader,

^a See his speech on the Address.

first, that if we are to consider our money simply as a valuable commodity, we encounter the difficulty which we have mentioned as lying in the way of the application of Mr. Ricardo's and Lord Overstone's theory of the currency in the case of a bad harvest ; we have seen that in such a case more rather than less of a valuable commodity would seem to be required to circulate our dear corn ; our currency, therefore, in that case could not be redundant ; the money which we exported must, as maintained by Mr. Tooke, be capital ; and if we once allow that money does exist in the country in the shape of capital not affecting prices, there appears to be an end of Lord Overstone's theory. Again, the only objection that can be urged against the course assumed by Lord Overstone to be adopted by a Government with regard to provisions, is its impracticability. The state cannot prevent provisions from rising to their natural price, and any attempt to interfere with the market for them would be absurd as well as impolitic. In the same way no doubt the state cannot prevent the natural distribution of the precious metals throughout the world, in such a manner as to give on the average those prices which will permit a trade between the various nations of the earth on the same terms as if it were conducted by barter ; the

state is powerless over prices as determined by this law; and if the fluctuations in price which occur before and during periods of commercial pressure were due to want of adjustment in the currencies of the different nations of the world, there would be no remedy but to rearrange their currencies; but the new gold, by showing the small and tardy effect produced upon prices by large additions to the currency, seems to have proved that these great fluctuations in prices must be almost entirely due to the agency of credit; they, therefore, must apparently be, to some extent at least, within the control of the state; and as, when confidence is once shaken, their course is most capricious, they are fit objects for the exertion of that control. In those cases in which credit has been unduly expanded in our country, it must, no doubt, be again reduced, or commercial intercourse cannot be carried on by us with our neighbours without a continual export of bullion; but in those instances in which our credit has received a shock from the loss of our harvest, or from a demand for capital, or from the failure of credit in neighbouring states, perhaps we may be able to meet the emergency without a contraction of the ordinary machinery for circulating our commodities, and without endangering the convertibility of our

notes ; and in all cases the contraction of credit might be restrained from going beyond the necessary point, a result of which there must always be great danger when once confidence is shaken.

Lord Overstone does not directly accuse the Government of injustice, but he implies, and many of the supporters of his views directly maintain, that the currency has been depreciated by the suspension of the act, and that great hardship has been inflicted both upon the public, who have been prevented from buying commodities at the extremely low prices to which they would have been reduced if the act had not been suspended ; and upon the lenders of money, who have been deprived of the twenty or thirty per cent. interest which they would have received.^a

In reply to this charge, the Chancellor of the Exchequer maintained that our notes still exchanged for gold, and were, therefore, not depreciated in the common sense of the word ; and that if the whole currency, both notes and gold, were redundant as compared with the currencies of other countries, that was a circumstance which was incident to the fluctuations of the precious metals in different countries, and could not be avoided. This view is, we see, similar to that

^a This is the favourite view of the *Times* and *Saturday Review*.

taken by Mr. Tooke, and is, perhaps, the one most generally entertained upon this subject; but it does not seem quite to meet the point made by the supporters of the act. They complain that the currency has not been allowed to take its natural value; they say that the currency, though not depreciated as compared with gold, was of less value than it would have been if gold alone had formed our circulating medium, because the gold currency would have been reduced in extent, and each piece would have become more valuable; the extent of the currency remained greater than it would have been if there had been no paper. The case is analogous to that which we considered as probably occurring during the revolutionary war with France; a part of the gold of the world was then, we supposed,^a hoarded, and the remainder became more valuable, while our notes continued to represent gold of the former value. In like manner, our notes, since the suspension of the Bank Act of 1844, represent gold of the ordinary value as compared with commodities, while gold, if our currency had been purely metallic, would have become locally scarce here, and its value greater than usual. The case is shortly this, our money now repre-

^a Ante, p. 146.

sents the average value of gold, while, if our currency had been metallic, it must have represented the accidental, temporary, and local value of that metal. If, therefore, it be understood that the state, in choosing gold as the standard, bound itself to allow the effect on prices of all temporary alterations in its value, and the advocates of this doctrine can show, that in the case of a purely metallic currency there would be no hoards to meet such accidental demands, and if they can refute the position of Mr. Tooke and Mr. Fullarton, that the notes issued on such occasions are for large amounts, never come into comparison with commodities, and are incapable of affecting prices in a country whose retail transactions are carried on by gold; they may say, with truth, that the currency has been depreciated by the suspension of the act; and if, after witnessing the slight result produced by the addition of twenty millions of gold to our currency, we allow that the effect produced by the addition of two millions of notes on the late occasion, could be sensibly felt, we must, to meet their argument, fall back upon general principles. What is the object of the institution of a national measure of value? Evidently to facilitate the distribution of commodities, but in the same manner as they would, though with more difficulty, be distributed

by barter, not to make any change in that distribution. It is, then, the duty of the Government, if it be possible, to keep the measure of value in such a state as will enable it to perform this duty efficiently, and they are equally justified in taking steps to secure this end, whether we are threatened with local and temporary variations in the value of gold, or by the more permanent changes which take place from alterations in the supply of it afforded by the mines.

As to the alleged violent interference with the high rate of interest, we must consider that we have seen that capitalists deal in capital, not in currency, that they cannot show that on this occasion there was a sudden scarcity of capital, or a great demand for it ; what was wanted was credit, in this any one who has the means of restoring or disturbing confidence may be a dealer, and the propriety of the conduct of Government must be estimated by its object, and not by its consequences to the lenders of money.

The position of Hamburgh during this crisis seems full of warning to us. The currency of that city is, in fact, entirely metallic, for though paper is used there, an amount of silver equal to it is kept in the bank. Yet this circumstance has proved no security against speculative trading, and the commercial distress in that city has

not only been greater than in any other place—greater even than in America,—but it seems less susceptible of alleviation. The want of some great body like our bank, whose credit might be lent to those who really deserved it, seems to be the cause of the sluggishness with which commerce rights itself in Hamburgh; and we may well hesitate before we, by insisting upon the act of 1844 in all its rigour, reduce our system of circulation to the state of rigidity exhibited by that of Hamburgh.

These events at Hamburgh seem to show the very great importance of Mr. Mill's observation, that by judicious issues of notes a currency may be made to form a much more steady measure of value than one which is purely metallic; and notwithstanding Lord Overstone's position, that to attempt to limit the fluctuations of a currency within narrower bounds than those of a metallic currency, is "an empirical procedure, not founded upon sound principles, which must tend to the most dangerous results,"* we shall, perhaps, be inclined to think that the trial must be made. Probably, a mercantile system, when much credit has entered into it, cannot be made to bend to the variations which a metallic currency would

* Ante, p. 178.

undergo in rude times. As society advances, more delicate machinery is perhaps required to carry on its transactions. A purely metallic currency may now be too clumsy an engine, and though a substitute for it which is more perfect may also be more dangerous in incompetent hands, we should suppose that the necessary skill could be found, that the knowledge of the community would grow with its wants.

And here we must notice a mistake into which Lord Grey and Mr. Gladstone, and other eminent supporters of Lord Overstone's theory, seem to fall, when they blame the tenacity with which "minds of great intelligence" adhere to the belief that the bank of England ought to afford relief to the mercantile interest during a pressure. They seem to suppose that these persons demand an issue of paper money and a depreciation of the currency, while, in fact, they ask only that the bank should interfere to restore credit to its ordinary state. This view is evidently a result of that part of Lord Overstone's theory which treats bank-notes as money.

Notwithstanding the small extent of the issues of the American banks, Lord Overstone seems to attribute the panic in that country to a vicious system of currency, as well as of trade and bank-

ing;* and the American currency is alluded to by almost all the supporters of the act as the climax of what is wrong. Now, upon this point we must remark that if reference be made to the American currency to show the necessary evils of an unregulated currency of convertible notes, the example of France may be quoted to prove exactly the reverse. Is it certain that on this occasion, considering the usual style of American trading, the convulsion has been more severe in that country than with us? France has certainly at present, at least, suffered much less than ourselves; and Hamburgh, where the currency is metallic, we have seen, has suffered more than any other country. Does not all this go to prove that credit, and not currency, is the regulator on these occasions? Lord Overstone also blames the local issues of Scotland and Ireland, for diminishing the power of the monetary system established by the act of 1844 to meet the pressure, and for causing its suspension; and he points out the system of receiving money at call at high rates of interest by the money-dealers and joint-stock banks as a modern practice, which has given rise to a state of affairs which cannot bear the slightest check without ruin. Lord Over-

* Speech on the Address.

stone does not say that the Government were wrong in suspending the act; but he seems to regret that it had not been enforced until this system had been shattered.

We may, perhaps, doubt whether it would avail to interfere with the Scotch system of banking in the hope of making the machinery of the act of 1844 perfect, while the banks of the United States, which must always exercise a more powerful influence on our currency, are quite beyond our control; nor is it probable that any practical check could be given to the new system of collecting deposits by the money-dealers and joint-stock banks: the system is thought by many persons to be beneficial, as directing a large amount of capital to mercantile purposes in times of pressure; it has probably arisen from the wants of society, and is, therefore, immutable.

With respect to the act of 1844, we have seen that the occurrences in Hamburgh strike a fatal blow at the principle on which it is founded; for they show that even if the act secured us a currency varying as a purely metallic one, it would not be adapted to our wants. On the present occasion no blame attaches to the conduct of the bank directors. The effect of the act has been fairly tried, and it has apparently been

found incompatible with the system of business which now prevails. There appears but little probability of changing our present system of business for one which would appear to the partizans of the act calculated to give it more effect. Its influence in frightening people into prudence must in a great degree be lost, and it may be considered virtually repealed. The attempt to introduce a suspending power will more completely produce this result, and will be environed with difficulties. If the dispensing power be given to the Government, the suspension of the act is facilitated, and a most dangerous power is placed in the hands of the minister ; if it be given to the bank directors, the act is in effect indirectly repealed, and had better be removed from the statute-book ; if it be given, as sometimes proposed, to a body of commissioners, how are they to prove more efficient, more honest, or more independent than the bank directors ? and they are not likely to be more capable ; for even assuming the great point that proper men are originally appointed, they would be required to act only at long intervals ; and it is likely that, when the time of trial came, they would not be found possessed of the consummate knowledge, both practical and theoretical, and of

the judgment requisite for the discharge of the office. We must remember that a crisis presents peculiar features on every occasion, and that the remedy, successful in one case, may be useless in another.

Again, the exercise of a dispensing power of any kind at a given period must be most invidious. Those houses that fall just before the relaxation will always feel that they are sacrificed ; and if that power is to be exercised only when the exchanges are favourable, it will be necessary to define what is meant by that term, whether the power may be exercised when gold flows in under a high rate of interest, or only when interest is at its natural rate. On former occasions this point has not occurred, because, so soon as our over-speculation was at an end, or we had paid for our corn, there was a natural tendency to an influx of gold in the usual course of business ; but now there seems a probability of the drain of gold being renewed so soon as the pressure by the bank is taken off. We may remember that the most severe drain which we ever experienced occurred two years after the suspension of cash payments by the American banks in 1837. The act appears to be inoperative in ordinary times, and to fail when the hour of trial comes ; and it therefore seems hardly

possible to embody in it a dispensing power without altogether stultifying it ; and upon the whole we must, we fear, for the future trust to unfettered prudence as a preservative against misfortunes such as we have lately experienced.

Recent events have, we trust, afforded a useful hint upon a very important subject ; they seem to have dispelled a portion of the vague expectations of increasing and uninterrupted prosperity, with which the announcement of the gold discoveries was received. The great increase in the production of gold is now suspected of being the hidden source of the late pressure. " On the present occasion," says the *Economist*, " the pressure cannot be attributed to any of the ordinary calamities which give rise to such events, its explanation must be found in the operation of some powerful general cause, fostering for a time a profound belief in the rapid expansion of the incomes and resources, not merely of a single country, but of all the trading countries of Europe and America, and as a direct consequence of this belief, the strong disposition to calculate on fresh markets, rapid consumption, and, therefore, on high and rising prices. The new gold has supported the commerce of this country and of France through severe trials ; but, in the midst of highly-organized systems of credit, a support long

continued becomes a stimulus of the most potent order, and, laying aside for the moment all secondary causes,* and speaking in the largest language of generalisation, the deeper causes of the recent pressure are to be sought in the breaking down at last of the towering fabric of expectations and speculations, built up on the broad and solid foundation of the annual influx of twenty millions sterling of treasure.”^a

We hope that what has now occurred will prove the inestimable advantage to all classes of a steady measure of value, and we beg to remind our rulers, who are now ready to enter into a course of doubtful, perhaps hazardous legislation, for the purpose of preserving the mercantile portion of the community from a recurrence of these calamities, that there is another section of the society at this time menaced with loss of property through a defect in the currency, who can be certainly and easily helped, and who have a better claim to assistance, for they have been guilty of no overtrading or imprudence of any kind, and they ask for nothing but protection to their property from the consequences of an accidental change in the measure by which the state has decreed that it should be estimated.

^a *Economist*, Dec. 5th, 1857. See also Mr. Disraeli's speech on the re-appointment of the Bank Act Committee.

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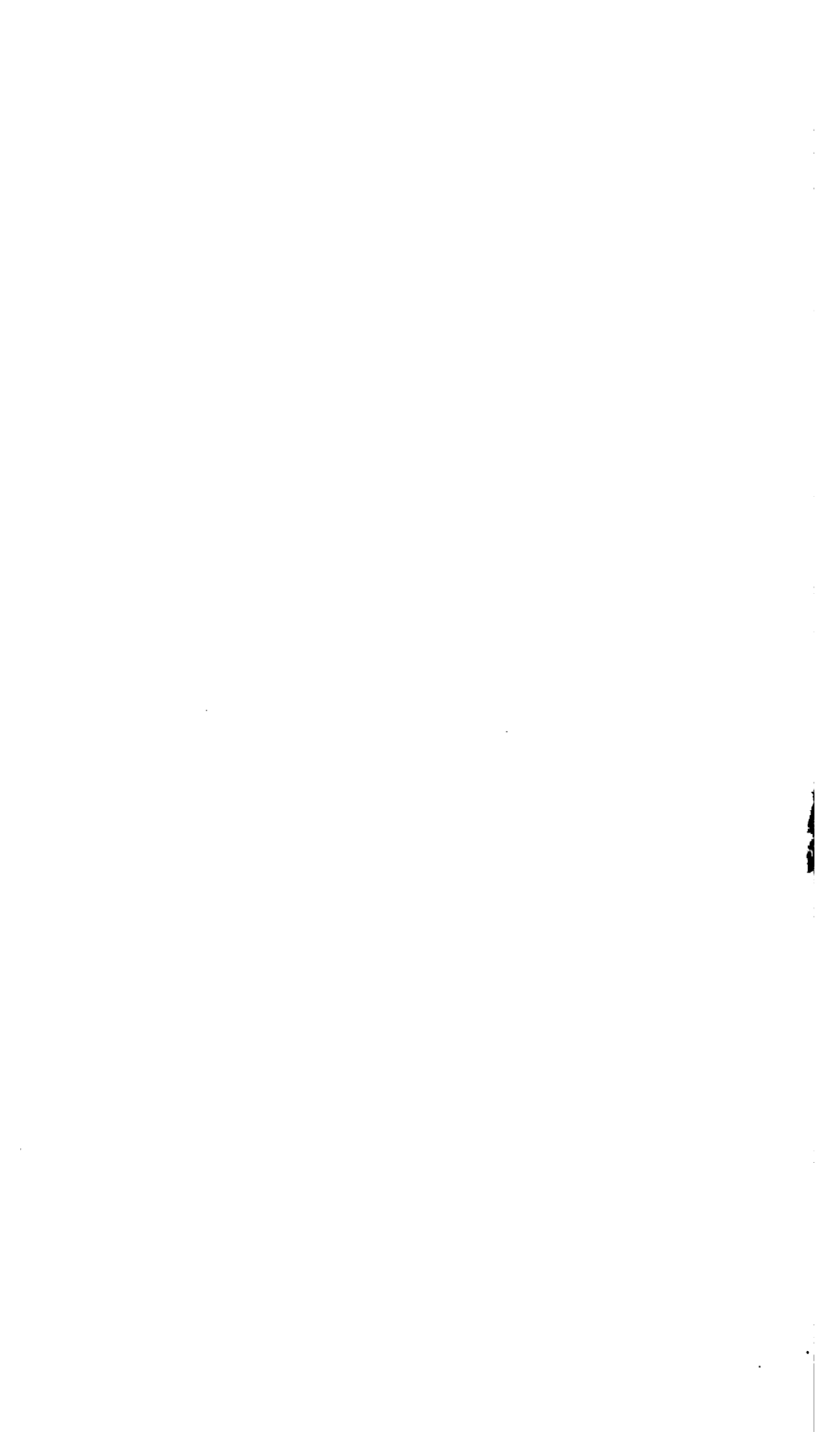
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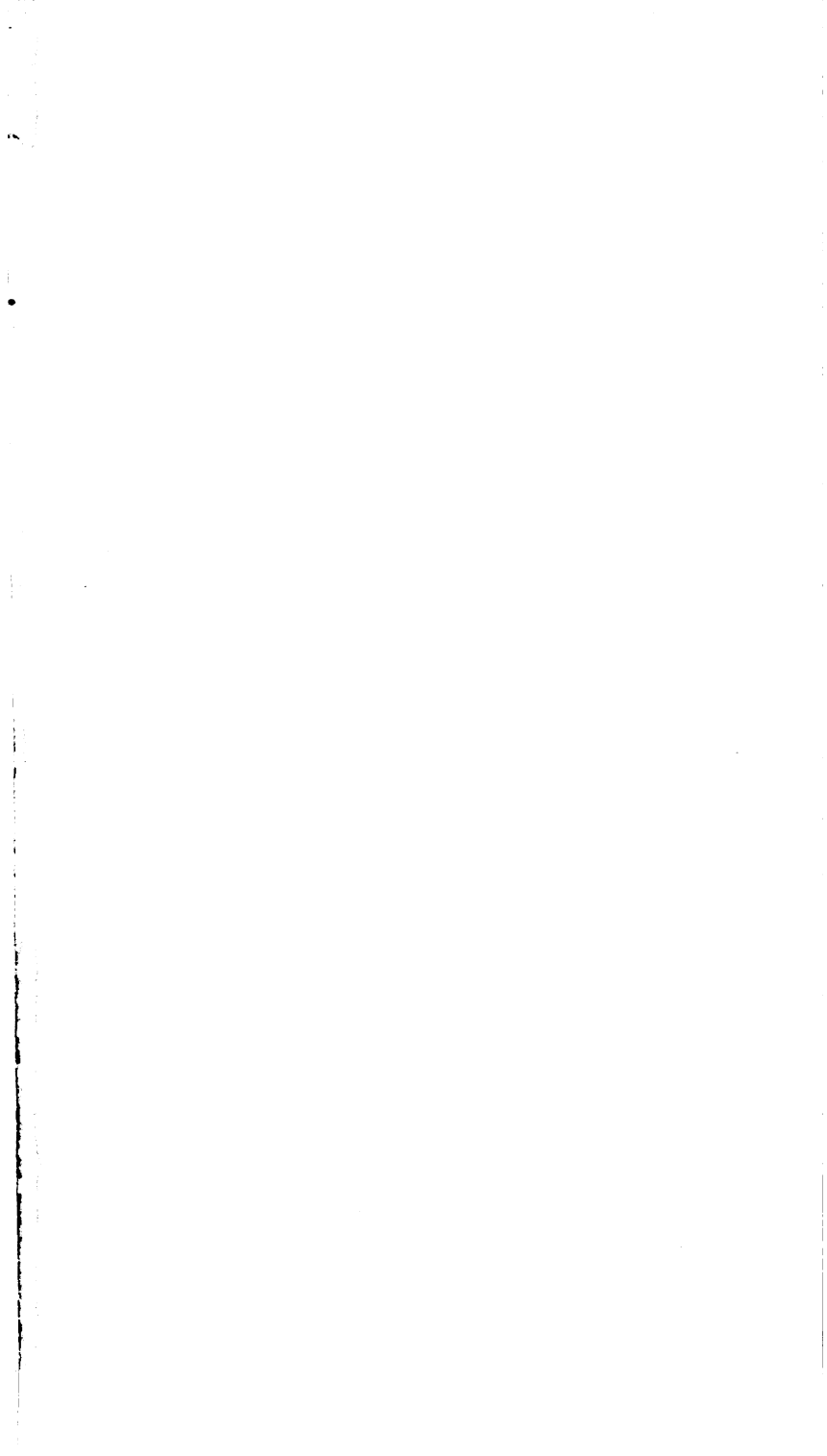
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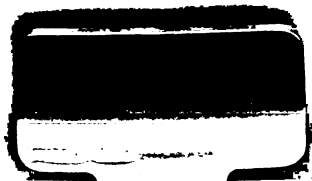
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